

THINK OUTSIDE THE PILLBOX



UROLOGIX[®]
2011 Annual Report

Dear Urologix Shareholder:

Urologix's primary focus has been, and will continue to be, the treatment of urinary obstruction and symptoms due to BPH – a major health problem in men. Urologix is committed to improving the quality of life for the many men suffering with BPH by partnering with urologists to treat this large and growing patient population with safe, effective and durable, in-office minimally invasive technologies.

Urologix's in-office technology, Cooled ThermoTherapy™, continues to earn valuable clinical support based on favorable performance in the treatment of BPH. In the May 2011 issue of The Journal of Urology, long-term data from a multi-center study conducted at leading urology centers in the US was published. Among the population of patients treated with Urologix's Cooled ThermoTherapy™ in the study, only 11% required BPH drugs at five years, post treatment and 90% of patients treated with CTT were free from a secondary procedure during the five year period. The results added further support for Cooled ThermoTherapy™ as a safe, effective and durable in-office procedure for treating both the symptoms and the bladder obstruction associated with BPH. The seminal focal point in this study was the durability, as reported by a principal study investigator from the University of Texas Southwestern Medical Center, Claus Roehrborn, MD: *"Durability is the name of the game. The better the results hold up over time, the fewer retreatments and the greater the benefit to cost ratio. In this context, the 5 year data from the Urologix Cooled ThermoTherapy Catheter (CTC) study are very reassuring."*

Strong clinical evidence combined with commentary from key thought leaders such as Dr. Roehrborn provides momentum towards our ongoing effort in educating the marketplace on the alternatives to chronic medical therapy. Fueled by early positive results this year from our "Think Outside the Pillbox!" campaign we are excited to repeat this message, louder and more frequently in the years to come. We are encouraged by the response from urologists who have shown an increasing appreciation for the non-surgical alternatives to treating BPH as a result of the "Think outside the Pillbox" campaign and we expect increasing awareness from our marketing efforts in the future.

We announced an exciting and transformational agreement after the end of this fiscal year – one that bolsters Urologix’s position as a valued partner to urologists across the U.S. On September 6, 2011, we announced the signing of an exclusive, worldwide license for the Prostiva Radio Frequency (RF) Therapy System for BPH from Medtronic, Inc. Prostiva RF Therapy is a transurethral needle ablation device that is 510(k) cleared for the treatment of BPH. Similar to the Urologix Cooled ThermoTherapy™ product, Prostiva is most commonly used in the urologist’s office. In fact, this transaction will significantly expand Urologix’s position as the leading provider of in-office treatment solutions for symptomatic and obstructive urinary conditions due to BPH. The combination of Prostiva RF Therapy with Urologix’s Cooled ThermoTherapy™ gives us the ability to offer urologists the broadest in-office solution set and more importantly will expand Urologix’s addressable patient population, customer base and sales force. This transaction enhances Urologix’s position as the leading provider of in-office treatment solutions for BPH with more than 50% market share.

There were appreciable economic challenges in the past year. However, despite the challenges presented by the overall economy, the evident strengths this past year include continued focus on operational efficiencies, on the quality of both our product and our mobile services, on the growing recognition of the clinical distinction of high energy, Cooled ThermoTherapy™ from lower energy competitors and on the responsible utilization of our cash resources.

In fiscal year 2012, we will focus on improving our liquidity position while strategically growing our business through four key initiatives. First, we are focusing on flawless assimilation of the Prostiva business into Urologix. Second, we will continue to educate the market on the merits of early intervention through an in-office, minimally invasive approach to treat BPH. Third, we intend to drive top line growth by expanding into new urologist offices as we believe that CTT and Prostiva combined are currently present in less than 20% of total urologist practices in the U.S. Fourth, only a small portion of our customer base utilizes both of our technologies and thus we have the opportunity to cross-sell into urologist practices that only utilize either CTT or Prostiva. We have a clear explanation for that customer as to why the two technologies complement one another—gland anatomy being the principal focal point. Also, we intend to integrate the Prostiva product line into the Urologix mobile services distribution platform.

While the market remains challenging in these uncertain economic times for the urologist, Urologix is optimistic, confident and diligent. Incumbent upon us is to demonstrate we can accelerate the market share gains while continuing to encourage urologists to embrace CTT—and now Prostiva—as a definitive, first-line therapy early in the BPH treatment paradigm. In fact, with CTT and Prostiva being offered as complementary technologies and supported by a single source—Urologix—we intend to promote the dramatic versatility that now accompanies durability. There is a clear clinical rationale why both should be offered by the urologist based upon the diversity in prostate anatomies.

I thank Urologix' loyal employees—particularly recognizing their conscientious efforts to ensure patient safety and the highest quality products and services; I thank the Board of Directors who continually demonstrate their commitment and capabilities through ongoing advice and counsel; and, I thank Urologix' loyal investors for your abiding interest, support and confidence.

I intend to demonstrate to Urologix employees, directors and investors that your confidence in the Company's leadership is well-founded and that adoption of Cooled ThermoTherapy™ and Prostiva RF Therapy becomes broader and deeper.

Sincerely,

A handwritten signature in black ink, reading "Stryker Warren, Jr." with a stylized flourish at the end.

Stryker Warren, Jr.
Chief Executive Officer

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended June 30, 2011.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission File Number **0-28414**

UROLOGIX, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1697237
(IRS Employer
Identification No.)

14405 21st Avenue North, Suite 110, Minneapolis, MN 55447
(Address of principal executive offices)

Registrant's telephone number, including area code: **(763) 475-1400**

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$.01 par value
Series A Junior Participating Preferred Stock Purchase Rights

Name of Exchange on Which Registered:
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Act)

Yes No

The aggregate value of the Company's Common Stock held by non-affiliates of the Company was approximately \$8,774,748 as of the last day of the Company's most recently completed second fiscal quarter, December 31, 2010, when the last reported sales price was \$0.64.

As of September 1, 2011, the Company had outstanding 14,626,280 shares of Common Stock, \$.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information is incorporated into Part III of this report by reference to the Proxy Statement for the Registrant's 2011 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	Business	4
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	19
Item 3.	Legal Proceedings	20
Item 4.	[Removed and Reserved]	20

PART II

Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	30
Item 8.	Financial Statements and Supplementary Data	30
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	50
Item 9B.	Other Information	50

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	51
Item 11.	Executive Compensation	51
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13.	Certain Relationships and Related Transactions, and Director Independence	51
Item 14.	Principal Accountant Fees and Services	51

PART IV

Item 15.	Exhibits and Financial Statement Schedules	52
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SIGNATURES		54
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PART I

Forward-Looking Statements

Statements included in this Annual Report on Form 10-K that are not historical or current facts are forward-looking statements. In addition, our officers may make forward-looking statements orally. We caution readers that these statements are not predictions of actual future results. Our actual results could differ materially from any such forward-looking statements as a result of risks and uncertainties, including those set forth below in Item 1A “Risks Factors” and in other documents we file from time to time with the Securities and Exchange Commission, including our Quarterly Reports on Form 10-Q. Any such forward-looking statements reflect information available to us as of the date of this Annual Report on Form 10-K, and we undertake no obligation to update any such forward-looking statements.

ITEM 1. BUSINESS

Overview

Urologix develops, manufactures, and markets non-surgical, catheter-based therapies that use a proprietary cooled microwave technology for the treatment of benign prostatic hyperplasia (BPH), a disease that affects more than 23 million men worldwide. We market our control units under the CoolWave[®] and Targis[®] names and our procedure kits, that consist of a disposable treatment catheter, Rectal Thermal Unit (RTU) balloon and coolant bag, under the CTC Advance[®], Targis, and ProstateProbe[™] names. All systems utilize the Company’s Cooled ThermoTherapy[™] (CTT) technology, a targeted microwave energy combined with a unique cooling mechanism that protects healthy tissue and enhances patient comfort while providing safe, efficacious, and lasting relief from the symptoms of BPH by the thermal ablation of hyperplastic prostatic tissue. Cooled ThermoTherapy can be performed without general anesthesia or intravenous sedation and can be performed in a urologist’s office or an outpatient clinic. We believe that Cooled ThermoTherapy provides an efficacious, safe and cost-effective solution for BPH with results clinically superior to medication and without the complications and side effects inherent in surgical procedures.

On September 6, 2011, we entered into agreements with Medtronic, Inc. relating to the Prostiva[®] Radio Frequency (RF) Therapy System, a minimally invasive medical product for the treatment of BPH. As a result of those agreements, we obtained an exclusive, worldwide license to the Prostiva technology for a ten year term, with an option to purchase. For more information on Prostiva and these agreements, please see the section entitled “Prostiva Product and Related Agreements” in this Item 1.

The Prostiva RF Therapy System delivers radio frequency energy directly into the prostate destroying prostate tissue, which reduces constriction of the urethra, thereby relieving BPH voiding symptoms. The combination of Prostiva RF Therapy with Cooled ThermoTherapy allows Urologix to offer urologists clinically proven products with established reimbursement that can treat the widest range of patients. In addition, this transaction will increase Urologix’s customer base, sales force and addressable patient population and makes Urologix the leading provider of in-office treatment solutions for BPH with over 50 percent market share.

We maintain a website at www.urologix.com. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our periodic reports on Form 8-K (and any amendments to these reports) are available free of charge on our website as soon as reasonably practical after we file these reports with the SEC. To obtain copies of these reports, go to www.urologix.com.

Benign Prostatic Hyperplasia

BPH is a non-cancerous disease in which the prostate grows and constricts the urethra causing adverse changes in urinary voiding patterns. The prostate is a walnut-sized gland surrounding the male urethra (the channel that carries urine from the bladder out of the body) that is located just below the bladder and adjacent to the rectum. While the actual cause of BPH is not fully understood, it is known that as men reach middle age, cells within the prostate begin to grow at an increasing rate. As the prostate grows, it compresses or impinges on the urethra and bladder neck, thereby restricting the normal passage of urine. BPH patients typically suffer from a variety of troubling symptoms that can have a significant impact on their quality of life. Symptoms of BPH include frequent urination during the day and night, urgency and painful urination. A delay in treatment can have serious consequences, including complete obstruction (acute retention of urine), urinary tract infections, loss of bladder function and, in extreme cases, kidney failure.

BPH generally affects men after the age of 50. Medical experts suggest that nearly every man will be affected by this condition at some time in his life. The BPH market is large and can be expected to continue to grow due to the general aging of the world's population as well as increasing life expectancies.

Due in part to the side effects and complications associated with traditional BPH therapies, many patients diagnosed with BPH are regularly monitored by their urologists but elect not to receive active intervention. This course of inaction is known as "watchful waiting." If symptoms persist or worsen, drug therapy or surgical intervention has historically been recommended. Drug therapy has historically been the first line of treatment. It is estimated that more than 20% of patients who initially pursue drug therapy discontinue treatment within 12 months for various reasons including cost, ineffectiveness, side effects and the burdens of compliance. Patients may also try multiple drugs or combinations of drugs to improve effectiveness. This leads to a more costly treatment and often additional side effects. Traditionally, the most common surgical procedure has been Transurethral Resection of the Prostate (TURP), an invasive surgery in which portions of the prostatic urethra and surrounding tissue are removed, thereby widening the channel and improving urinary flow. While TURP results in a dramatic improvement in urine flow and reduction in symptoms, the procedure can require a lengthy recovery time and is reported to have a high rate of side effects and complications. Because the TURP procedure requires a highly skilled surgeon with extensive training, the incidence of complications is affected by the experience of the surgeon performing the TURP.

Cooled ThermoTherapy

Our CoolWave control unit and the prior generation Targis control unit both utilize Cooled ThermoTherapy (CTT) to deliver a catheter-based treatment for BPH that provides durable results and is less invasive than surgery. Our newest Cooled ThermoTherapy catheter is the CTC Advance microwave catheter designed to improve ease of use and patient comfort compared to earlier generation devices. Cooled ThermoTherapy is a first line safe, effective and durable treatment option for patients with BPH. The urologist and patient must determine if it is the best option, but CTT is often selected for patients who prefer not to initiate daily chronic medication or have tried BPH medication and are unhappy with the lack of clinical improvement, the side effects or the costs.

Cooled ThermoTherapy utilizes a proprietary, focused, high energy microwave technology, delivered through a flexible catheter that targets energy into the transitional zone of the prostate producing a temperature sufficient to cause cell death, while simultaneously cooling and protecting the healthy, pain-sensitive urethral tissue. During a Cooled ThermoTherapy procedure, a catheter is inserted into the urethra and anchored in the bladder, and a rectal thermosensing unit is placed into the patient's rectum. Chilled water is then circulated through the catheter to lower the temperature of the urethra and protect it from heat and discomfort during the treatment. Temperatures in the urethra and rectum are monitored continuously during the treatment while microwave energy is delivered into the prostatic tissue, ultimately resulting in a reduction in the size of the prostate and relief of symptoms as the body re-absorbs the destroyed tissue during the months following treatment.

Cooled ThermoTherapy provides significant advantages over other BPH treatment options, producing lasting results while avoiding the complications associated with surgery. Because Cooled ThermoTherapy does not require punctures or incisions and protects the urethra during treatment, it can be performed in the urologist's office or other outpatient environments without the need for general anesthesia or intravenous sedation which results in fewer complications and lower overall cost to the healthcare system.

Clinical Studies

Numerous multi-center, prospective, clinical trials of the Cooled ThermoTherapy procedure have been conducted to collect safety and efficacy data, to support potential new indications and marketing claims, to generate long-term durability data, and to gather data for Medicare and other reimbursement approvals in various markets. In published results from these multi-center clinical trials, conducted both in the United States and internationally, the majority of Cooled ThermoTherapy patients for whom follow-up data is available showed significant long-term relief from the symptoms of BPH. This was confirmed in May 2011 by the publication of five year data on Cooled ThermoTherapy in the *Journal of Urology*. A summary of this data can be found on our website at www.urologix.com, substantiating the five year durability and efficacy of our CTC microwave catheter with 90 percent of the patients enjoying freedom from additional minimally invasive procedures or surgical procedures relating to BPH and sustained symptom improvement.

Sales and Marketing

Our goal is to establish Cooled ThermoTherapy as the first treatment choice for BPH patients who prefer not taking daily medication or who are dissatisfied with symptom improvement, cost or side effects from chronic BPH drugs. Our business strategy to achieve this goal is to (i) educate both patients and urologists on the benefits of Cooled ThermoTherapy versus chronic maintenance medication through the Company's "Think Outside the Pillbox!" campaign, (ii) increase the use of Cooled ThermoTherapy by urologists who already have access to a Cooled ThermoTherapy system, (iii) increase the number of urologists who provide Cooled ThermoTherapy to their patients, and (iv) provide more urologists with access to Cooled ThermoTherapy through the use of our own Urologix mobile service in the United States.

United States

We have a sales and marketing team consisting of sales management, marketing support, clinical support, mobile application specialists and direct sales representatives, all of whom are dedicated to marketing our Cooled ThermoTherapy products and our Urologix mobile service. During the fourth quarter of fiscal year 2011, we hired Lisa Ackermann as our Vice President of Sales and Marketing. Ms. Ackermann has a strong background in developing and leading medical device sales organizations, as well as maximizing the potential of new product launches and market development opportunities. In addition to overseeing our sales and marketing departments, Ms. Ackermann will also continue to lead the assault on BPH drug therapy through our training programs, our consultative selling approach, and our promotional campaigns such as "Think Outside the Pillbox!" which is intended to increase consumer awareness of a non-surgical alternative to drugs.

Our direct sales force and marketing efforts are targeted at urologists who treat or are interested in treating BPH patients in their office. Our Urologix mobile application specialists transport the CoolWave control unit, along with the single-use treatment catheters and necessary supplies, to urologist offices, ambulatory surgery centers and hospitals on a scheduled basis, making the treatment available to urologists and patients on an efficient and economical basis. As of June 30, 2011 our mobile assets included 16 vans which service 15 mobile routes in select geographies across the United States. In addition to our direct sales force and Cooled ThermoTherapy mobile application specialists, we continue to utilize independent third-party mobile service providers to provide hospitals, ambulatory surgery centers and urology clinics with access to our Cooled ThermoTherapy treatment. As of June 30, 2011, we employed a total of 40 individuals in our sales and marketing departments and in our Urologix mobile service. The expenses for our Urologix mobile service are included in cost of goods sold.

We offer our Cooled ThermoTherapy control units to our customers on a direct purchase, or on an evaluation or longer-term use basis. Pricing for single-use treatment catheters to direct customers and our Urologix mobile service varies based upon treatment volume.

International

Although our international sales efforts have historically been relatively modest, we believe that there is a potential market for Cooled ThermoTherapy outside of the United States in certain, limited markets. While we will continue to utilize local distributors experienced in selling products to hospitals and urologists to assist us in these opportunities, our principal focus is on the U.S. market opportunity. The inherent challenge outside the United States is that third party reimbursement of our Cooled ThermoTherapy procedure is less prevalent and our revenue in international markets will largely depend on private payors' willingness to pay a fair amount for our product and service, or that the patient will pay out-of-pocket for significant portions or all of the treatment costs.

Manufacturing

We assemble CoolWave control units and Targis and CTC Advance catheter procedure kits using materials and components supplied by various subcontractors and suppliers, as well as components we fabricate at our suburban Minneapolis facility. Several of the components used in our control units and procedure kits are currently available to us through a single vendor.

We continuously seek to develop alternative sources for critical components. When alternative sourcing is not possible, we work to enter into supply agreements with each component provider. Nevertheless, failure to obtain components from these providers or delays associated with any future component shortages, particularly if we increase our manufacturing level, could have a material adverse effect on our business, our financial condition and our overall operating results.

During the fourth quarter of fiscal year 2007, in connection with our development of the CTC Advance catheter, we implemented an end-of-life plan for our Prostatron product line. The inventory of Prostateprobe devices will be depleted within the 2012 fiscal year.

Our manufacturing operations and the operations of our third-party suppliers must comply with the U.S. Food and Drug Administration's (FDA) quality system regulation which includes, but is not limited to, the FDA's Good Manufacturing Practices (GMP) requirements, and must comply with certain requirements of state, local and foreign governments for assuring quality by controlling components, processes and document traceability and retention, among other things.

The FDA periodically inspects our facility, documentation and quality systems. To date the FDA has noted no significant deficiencies of GMP. Our facility will continue to be subject to periodic inspections by the FDA and by other auditors. We believe that our manufacturing and quality control procedures meet the requirements of the FDA and other regulators and that we have established training and internal audit systems designed to ensure compliance.

We have received and maintained ISO 13485 quality system certification indicating compliance of our manufacturing facilities with international standards for quality assurance and manufacturing process control. We also have received and maintain CE mark certification, which allows us to affix the CE Mark to our CoolWave, Targis and CTC Advance products and market them in the European Union.

As of June 30, 2011, we employed 26 individuals in our manufacturing department.

Research and Development

We will continue to invest in research and development and clinical trials to improve our products and our therapy. These investments are intended to broaden our product offering and expand the clinical evidence supporting our proprietary Cooled ThermoTherapy treatment for BPH. In April 2009 at the American Urological Association (AUA) annual meeting, we launched our newest Cooled ThermoTherapy treatment catheter, the CTC Advance short antenna length, and had two separate presentations of our clinical data. The presentations highlighted our five year durability data and the ability of urologists using our system to customize the treatment for patients. At the 2010 AUA, we had two additional presentations at the subspecialty meeting of the Geriatric Urological Society. The first presentation highlighted how the combination of cooling and high energy with Cooled ThermoTherapy uniquely enables delivery of a therapeutically effective treatment. The second demonstrated the five year preservation of sexual function following Cooled ThermoTherapy, a significant concern for sexually active men considering the alternatives of chronic medication or surgery. In May 2011, our five year data was published in the Journal of Urology which showed freedom from a second procedure for 90 percent of the patient at 5 years with follow-up on 96 percent of the patients in the study at that point in time.

We intend to build upon our intellectual property, our scientific and clinical knowledge and our relationships to develop innovative future generations of BPH products and services. Our research and development efforts and goals are currently focused primarily on improving the features and functions of the technologies used in our Cooled ThermoTherapy procedure, expanding the treatable population, improving the ease of use, patient comfort and clinical response to Cooled ThermoTherapy treatment and reducing the manufacturing cost of our products.

During the fiscal years ended June 30, 2011, 2010, and 2009, we spent \$2.2 million, \$1.8 million, and \$2.4 million, respectively, on our research and development efforts. As of June 30, 2011, we employed 13 individuals in our research and development department.

Reimbursement

We believe that third-party reimbursement is essential to the continued adoption of Cooled ThermoTherapy, and that clinical efficacy, overall cost-effectiveness and physician advocacy will be keys to maintaining such reimbursement. We estimate that 70% to 80% of patients who receive Cooled ThermoTherapy treatment in the United States are eligible for Medicare coverage. The remaining patients will be covered by either private insurers, including traditional indemnity health insurers and managed care organizations, or they will be private paying patients. As a result, Medicare reimbursement is particularly critical for widespread market adoption of Cooled ThermoTherapy in the United States.

Each calendar year the Medicare reimbursement rate for Cooled ThermoTherapy is determined by the Centers for Medicare and Medicaid Services (CMS). The Medicare reimbursement rate for physicians varies depending on the site of service, wage indexes and geographic location. The national average reimbursement rate is the fixed rate for the year without any geographic adjustments, but does vary based on site of service. Cooled ThermoTherapy can be performed in the urologist's office, an ambulatory surgery center (ASC), or a hospital as an outpatient procedure.

The national average of Medicare reimbursement in the physician office setting for all transurethral microwave therapy procedures for calendar 2011 is \$2,350 per procedure. We continue to monitor all reimbursement developments closely and will continue to execute on our active reimbursement strategy.

Cooled ThermoTherapy procedures are reimbursed when performed in an ASC or a hospital outpatient setting, but these are a small portion of our business and the CMS changes to these rates will not have a material effect on our financial performance.

Private insurance companies and HMOs make their own determinations regarding coverage and reimbursement based upon "usual and customary" fees. To date, we have received coverage and reimbursement from private insurance companies and HMOs throughout the United States. We intend to continue our efforts to maintain coverage and reimbursement across the United States. There can be no assurance that reimbursement determinations for Cooled ThermoTherapy from these payers or that amounts reimbursed to urologists for performing Cooled ThermoTherapy procedures will be sufficient to encourage urologists to use Urologix' product and service offerings.

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation did not directly affect our fiscal year 2011 financial statements and we do not expect the legislation to affect our financial results for fiscal year 2012.

We have an active reimbursement strategy, and have retained consultative experts to assist us with reimbursement matters. For calendar 2012, CMS published the proposed rule with additional changes to the physician fee schedule covering Cooled ThermoTherapy. The reimbursement for calendar year 2012 will be determined by both the final CMS rule for the Physician Fee Schedule as well as Congressional actions to address the sustainable growth rate (SGR) formula.

Internationally, reimbursement approvals for the Cooled ThermoTherapy procedure are awarded on an individual-country basis.

Patents and Proprietary Rights

We currently own 47 U.S. and 19 international patents. We also have three patent applications pending in the United States and we intend to file additional patent applications in the future.

Several of our United States patents claim methods and devices that we believe are critical to providing a safe and efficacious treatment for BPH. There can be no assurance that our patents, or any patents that may be issued as a result of existing or future applications, will offer any degree of protection from competitors or that any of our patents or applications will not be challenged, invalidated or circumvented in the future.

In addition to patents, we also rely on trade secrets and proprietary know-how that we intend to protect, in part, through proprietary information agreements with employees, consultants and other parties. Our proprietary information agreements with employees and most of our consultants contain provisions requiring that the individuals assign to us, without additional consideration, any inventions conceived or reduced to practice while employed by or under contract with us, subject to customary exceptions. Our officers and other key employees also agree not to compete with us for a period following termination.

Competition

Competition in the market for the treatment of BPH comes from drug therapy, other minimally invasive office-based treatments, and invasive surgical therapies, such as TURP and laser surgeries (Laser Vaporization or Laser Enucleation). There are multiple companies that market or distribute surgical products for either TURP or laser procedures including: Olympus, Karl Storz, American Medical Systems, Boston Scientific, Lumenis, Lisa Laser and Biolitec.

There are eight well-recognized prescription drugs available in the United States for treating the symptoms of BPH: Flomax (Boehringer Ingelheim International GmbH), Hytrin (Abbott Laboratories), Cardura (Pfizer Inc.), UroXatral (Sanofi-Synthelabo), Rapaflo (Watson Pharmaceuticals, Inc.), Proscar (Merck & Co., Inc.), Jalyn (GlaxoSmithKline), and Avodart (GlaxoSmithKline), some of which are now also available in generic preparation. Drug therapy is currently the first-line therapy prescribed by most physicians – both primary care physicians and urologists – in the United States for BPH. The drug companies have significant resources to educate urologists and patients through direct sales and direct to consumer marketing. We focus on educating urologists and their patients to the benefits of our Cooled ThermoTherapy in a targeted and efficient manner but we have fewer resources than manufacturers of BPH drugs.

Competition in the market for minimally invasive office-based treatments for BPH is also significant. Competitive devices include low energy microwave combined with balloon dilatation (Boston Scientific); non-cooled, low energy microwave (American Medical Systems); and high energy microwave with limited cooling (Prostalund). Additional competitors may enter the market. We believe Cooled ThermoTherapy offers a durable solution as shown in peer reviewed clinical trials and final five year data as presented at the April 2009 AUA annual meeting and published in the May 2011 Journal of Urology. Our product is FDA-approved for the largest treatable patient population compared to other office-based BPH therapies. Because Cooled ThermoTherapy does not require punctures or incisions, it can be performed in the urologist's office or other outpatient environments without the need for general anesthesia or intravenous sedation. Further, by combining focal high energy microwave therapy with cooling, we can achieve higher temperatures in a controlled pattern that conforms to the natural shape of the prostate, destroying hyperplastic tissues to create lasting results while preventing damage to the urethra, enhancing patient comfort and reducing complications.

Government Regulation

Governmental regulation in the United States and other countries is a significant factor affecting the research and development, manufacture and marketing of our products. In the United States, the FDA has broad authority under the Federal Food, Drug and Cosmetic Act and the Public Health Service Act to regulate the manufacture, distribution and sale of medical devices. Foreign sales of medical devices are subject to foreign governmental regulation and restrictions that vary from country to country.

Medical devices intended for human use in the United States are classified into one of three categories. Such devices are classified by regulation into either Class I (general controls), Class II (general controls and special controls) or Class III (general controls and pre-market approval (PMA)) depending upon the level of regulatory control required to provide reasonable assurance of the safety and effectiveness of the device. Good manufacturing practices, labeling, maintenance of records and filings with the FDA also apply to medical devices.

Our Cooled ThermoTherapy systems have received FDA approval for sale in the United States as a Class III medical device. We have obtained CE Mark certification for distribution in Europe and product registration for distribution in Canada, Australia, and New Zealand.

The FDA's regulations require agency approval of a PMA supplement for a Class III medical device when certain changes are made to a product if the changes affect the safety and effectiveness of the device. Such changes include, but are not limited to, new indications for use; the use of a different facility or establishment to manufacture, process or package the device; changes in manufacturing methods or quality control systems; changes in vendors used to supply components of the device; changes in performance or design specifications; and certain labeling changes. Any such changes will require FDA approval of a PMA supplement prior to marketing of the device. There can be no assurance that the required approvals of PMA supplements for any changes will be granted on a timely basis or at all. Delays in receipt of, or failure to receive such approvals, or the loss of the approval of the PMA for either of our Cooled ThermoTherapy systems would have a material adverse effect on our business.

The process of obtaining FDA and other required regulatory clearances or approvals is lengthy and expensive. There can be no assurance that we will be able to obtain or maintain the necessary clearances or approvals for clinical use or for manufacturing or marketing of our products. Failure to comply with applicable regulatory approvals can, among other things, result in warning letters, fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution. In addition, government regulation may be established that could prevent, delay, modify or rescind regulatory clearance or approval of our products.

Medical device laws are also in effect in many of the countries outside of the United States in which we do business. These laws range from comprehensive device approval and quality system requirements for some or all of our medical device products to simple requests for product data or certifications. The number and scope of these requirements are increasing. All medical devices sold in Europe must meet the European Medical Device Directive standards and receive CE Mark certification. CE Mark certification involves a comprehensive quality system program and submission of data on a product to the Notified Body in Europe.

Health Care Regulation

We regularly monitor developments in laws and regulations relating to our business. We may be required to modify our agreements, operations, marketing and expansion strategies from time to time in response to changes in the statutory and regulatory environment. Although we plan to structure all of our agreements, operations, marketing and strategies in accordance with applicable law, there can be no assurance that our arrangements will not be challenged successfully or that required changes will not have a material adverse effect on operations or profitability.

Product Liability and Insurance

As a result of our exposure to product liability claims, we currently carry product liability insurance covering our products with policy limits per occurrence and in the aggregate that we have deemed to be sufficient. We cannot predict, however, whether this insurance will actually be sufficient, or if not, whether we will be able to obtain sufficient insurance to cover the risks associated with our business or whether such insurance will be available at premiums that are commercially reasonable. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, if at all. A successful claim against us or settlement by us with respect to uninsured liabilities or in excess of our insurance coverage, or our inability to maintain insurance in the future, or any claim that results in significant costs or adverse publicity against us, could have a material adverse effect on our business, financial condition, results of operations and liquidity.

Employees

As of June 30, 2011, we employed 88 individuals on a full-time basis. We also had several part-time employees, consultants and independent third-party sales representatives. None of our employees are covered under a collective bargaining agreement. We consider our relationship with our employees to be good.

Prostiva Product and Related Agreements

Prostiva Radio Frequency (RF) Therapy is a minimally invasive treatment for BPH. The Prostiva RF Therapy is a transurethral needle ablation device, delivering low-level radio frequency energy directly into the prostate, destroying the prostate tissue and improving the symptoms of BPH. Prostiva can precisely target and treat specific areas within the prostate while allowing the urologist direct visualization of the treatment area; all while preserving the urethra. The Prostiva system consists of a specialized cystoscope connected to a radio frequency generator. The RF current is precisely delivered to the region immediately surrounding the active electrode, allowing accurate control of the tissue effect.

Prostiva addresses the large and underpenetrated BPH patient population as does the Urologix Cooled ThermoTherapy treatment.

Like CTT, the Prostiva technology is most commonly used in the urologist's office and is safe, effective and durable, has minimal post-op complications, minimal sexual side-effects and is cost-effective for both the patient and the payor when compared to drugs and surgeries.

On September 6, 2011, we entered into agreements with Medtronic, Inc. ("Medtronic") and its subsidiary, VidaMed relating to the Prostiva RF Therapy. These agreements are summarized as follows:

License Agreement: Under the License Agreement, Medtronic and VidaMed granted us an exclusive, worldwide license to the Prostiva® RF Therapy System in the field of the radio frequency treatment of the prostate, including the treatment of benign prostatic hyperplasia (BPH). In exchange for the license, we will pay Medtronic a license fee of \$1.0 million, of which \$500,000 was paid upon the execution of the License Agreement. The remaining \$500,000, less the \$147,000 purchase price paid under the Asset Purchase Agreement and certain credits under the Transition Agreement, must be paid by us on September 6, 2012. The Asset Purchase Agreement and the Transition Agreement are described below. We will also pay Medtronic royalties on net sales of product, subject to minimum and maximum royalty amounts. Earned royalties are payable thirty days following the end of each contract year; minimum royalty amounts are payable ninety days following the end of each contract year. We are also obligated to pay a license maintenance fee of \$65,000 on September 6, 2012 and annually thereafter. In addition, if total payments by us to Medtronic under the License Agreement (other than the license maintenance fee) and under the Asset Purchase Agreement (described below) reach an aggregate of \$10 million, we will have no further payment obligations to Medtronic and will thereafter have a fully paid up, royalty-free and perpetual license for the term of the License Agreement. The term of the License Agreement is ten years or the earlier closing date of a purchase under the Acquisition Option Agreement described below. In addition, either party may terminate the License Agreement by written notice for breach after an opportunity to cure and the license will automatically terminate concurrently with certain terminations of the Transition Agreement (described below). Upon termination of the License Agreement, all rights to the Prostiva intellectual property will revert back to Medtronic and the Transition Agreement and Acquisition Option Agreement will terminate. Further, upon termination of the License Agreement by Medtronic as a result of our breach

or bankruptcy, Medtronic will have the right to repurchase the assets from us that we previously purchased under the Asset Purchase Agreement for the same purchase price we previously paid. Medtronic and VidaMed also entered into sublicenses to grant us rights to certain intellectual property relating to the Prostiva treatment.

Transition Agreement: We entered into a Transition Services and Supply Agreement with Medtronic under which Medtronic will provide us with transition services relating to manufacturing, sourcing, operations, compliance, quality, regulatory and other matters for an initial term ending one month after Medtronic completes certain regulatory work. We will pay Medtronic a fee of \$30,000 per month beginning in November 2011 for these transition services and will continue paying this monthly fee until the earlier of the initial term of the Transition Agreement or the last of certain United States or European Union regulatory transfers. The parties also allocated responsibility for various other costs associated with the transition services.

Through the Transition Agreement, Medtronic appointed Urologix as its exclusive U.S. distributor of the Prostiva treatment until such time as we have received the regulatory approvals necessary to allow us to sell the product in the U.S. Medtronic also agreed to continue to sell products through certain channels outside of the U.S. during a transition period. Following the transition period, we will be entitled to distribute products outside of the U.S. pursuant to the terms of a distribution agreement until we have received the necessary regulatory approvals, at which time we will be able to sell the products in those territories consistent with the regulatory approvals of those territories. Medtronic also consigned certain inventory to us and we are obligated to accept additional consignment inventory upon the expiration of transition periods.

Under the provisions of the Transition Agreement, the parties also agreed upon the handling of product warranty claims, agreed upon a transition plan for regulatory matters, and entered into a quality agreement. In addition, Medtronic assigned a supply agreement to us, will place orders with certain suppliers and sell those components to us at its cost, and will transfer certain other components to us.

The Transition Agreement will terminate on September 6, 2012, but if certain U.S. regulatory approvals have not been received during the twelve month period, the Transition Agreement will be extended for three months. Medtronic may terminate the Transition Agreement prior to the expiration of its term for an uncured breach by us. We may terminate the Transition Agreement prior to the expiration of its term in connection with excessive third party regulatory costs. In addition, if neither party elects to address certain regulatory challenges, either party may terminate the Transition Agreement and Medtronic must pay us \$250,000. Upon termination by Medtronic for a regulatory challenge or by us, we will not have any further payment obligation for any minimum royalty, any license fee not then due and payable, or any obligation to purchase any assets under the Acquisition Option Agreement or the Asset Purchase Agreement, described below.

Acquisition Option Agreement: Under the Acquisition Option Agreement with Medtronic, we have the right to purchase and Medtronic has the right to require us to purchase the assets associated with the Prostiva treatment and the licenses and sublicenses granted by Medtronic and VidaMed. In the case of our exercise of our option to purchase, the purchase price will be \$10 million less license fees and royalty amounts previously paid under the License Agreement and the purchase price paid under the Asset Purchase Agreement. In the case of Medtronic's exercise of its option to require us to purchase, the purchase price will be the price stated by Medtronic in its exercise notice, provided that price is accepted by us in our sole discretion. Our rights and Medtronic's rights under the Acquisition Option Agreement may be exercised until the License Agreement expires or terminates or, if earlier, the date the other party's notice of exercise is received in accordance with the Acquisition Option Agreement.

Asset Purchase Agreement: We entered into an Asset Purchase Agreement through which Medtronic will sell to us certain tangible assets used in the Prostiva business for a purchase price of \$147,000. The purchase price is payable the later of September 6, 2012 or at the closing of the Asset Purchase Agreement transactions, which will take place as soon as practicable after the date of certain U.S. regulatory approvals.

ITEM 1A. RISK FACTORS

The occurrence of any of the following risks could harm our business. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. If any of these risks materialize, the trading price of our common stock could decline, and investors may lose all or part of their investment.

Risks Related to Our Financial Condition

As a result of our history of operating losses and inadequate operating cash flow, there is a substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern depends upon our ability to improve our liquidity, either through cash flow from operations or from debt or equity financing.

We have experienced significant operating losses to date, including net losses of \$3.7 million for fiscal year 2011 and \$2.2 million in fiscal year 2010. At June 30, 2011, we had approximately \$3.1 million in cash and cash equivalents. Subsequent to the end of our fiscal year, we entered into a license agreement with Medtronic and paid Medtronic \$500,000 of the \$1,000,000 initial license fee on September 6, 2011. Primarily due to this licensing payment, acquisition and integration related expenses, the net loss incurred in the current business and one-time annual operating expenses such as insurance premiums, as of September 16, 2011 our cash and cash equivalents balance was approximately \$1.5 million. The significant decrease in our cash balance in the first quarter of fiscal year 2012 is not expected to continue throughout the remainder of the fiscal year as the cash outflows in the first quarter related to the annual payments and the licensing fee will not occur again in fiscal year 2012. In addition, as part of the licensing agreement, payments for Prostiva products and royalties are deferred into the next fiscal year while collections of Prostiva revenue commence immediately.

As a result of our history of operating losses and negative cash flows from operations, the licensing fee and integration expenses related to the Prostiva acquisition, and the uncertainty regarding our ability to obtain additional capital, our auditors have expressed substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary as a result of this uncertainty. As a result of receiving this opinion from our independent public accountants, we may experience possible adverse effects from our customers, on our creditworthiness, or on investor confidence, any of which may have a material adverse effect on our business and the trading price of our common stock.

Our cash and cash equivalents may not be sufficient to sustain our day-to-day operations for the next 12 months and our ability to continue as a going concern depends upon our ability to generate revenues both from our Cooled ThermoTherapy products and from the Prostiva products we sell beginning September 6, 2011. Our management has and will continue to implement operational measures designed to manage expenses. In addition, we must improve our liquidity, whether through cash generated by operations or through the issuance of debt or equity. However, there can be no assurance that we will be successful in improving our business or obtaining additional debt or equity financing on terms acceptable to us, if at all.

We have a history of unprofitability and may not be able to generate sufficient cash flow to fund our operations.

We incurred net operating losses of \$3.7 million for the year ended June 30, 2011 and \$2.2 million for the year ended June 30, 2010. Since our inception, we have incurred losses of approximately \$110.0 million. Moreover, we have historically not generated sufficient operating cash flow to fund our operations. We may not be able to fund our liquidity needs through operating cash flow alone without additional capital, whether through debt or equity financing. Because we expect to continue to incur additional expenses relating to sales and marketing activities and research and development activities, we must increase the revenues received from sales of our products to generate cash flow and operate in a profitable manner.

Our ability to continue and grow our business without additional capital depends on our ability to generate sufficient cash flow from operations. Our cash flow depends, in part, on our ability to secure new customers, generate significant revenue from existing and new customers, and manage expenses, as well as general economic conditions and other factors over which we have little control.

We cannot offer assurance that we will generate increases in our revenues, attain profitable operations, or successfully implement our business plan or future business opportunities.

Any additional capital we seek may not be available in the amount or at the time we need it.

Our ability to execute our long-term strategy depends on our ability to obtain additional working capital. We used approximately \$2.4 million of net cash from operating activities in the year ended June 30, 2011 and ended our 2011 fiscal year with approximately \$3.1 million in cash and cash equivalents. Additionally, on September 6, 2011, we paid Medtronic \$500,000 of a \$1,000,000 initial license fee, further reducing our cash and cash equivalents.

We require additional capital to execute our business plan and pursue our strategic goal of becoming the urologist's trusted partner for the first line treatment for BPH patients. Accordingly, we are pursuing all available alternatives to obtain capital. While we are attempting to generate capital through cash flow from operations, we are also pursuing financing alternatives. We intend to seek additional financing by incurring indebtedness or from an offering of our equity securities or both. Our financing needs are based upon management estimates as to future revenue and expense. Our business plan and financing needs are also subject to change based upon, among other factors, our ability to generate revenue from both the Prostiva RF Therapy System product and our Cooled ThermoTherapy products and our ability to cost effectively manage the integration of the Prostiva business with our existing business. If our estimates of our financing needs change, we may need additional capital more quickly than we expect or we may need more capital than we currently expect.

No assurance can be given that additional financing will be obtained in an amount that is sufficient for our needs, in a timely manner, or on terms and conditions acceptable to us or our shareholders.

Our efforts to raise additional funds from the sale of equity may be hampered by the depressed trading price of our common stock and the fact that we are currently not compliant with the minimum bid price requirement for continued listing on The Nasdaq Capital Market. In addition, any efforts to raise funds by incurring additional indebtedness may be hampered by the fact that we do not have significant tangible assets and the challenges we would face in servicing our current indebtedness with cash flow from operations.

The following factors may also affect our ability to obtain additional financing on favorable terms, or at all:

- our auditors have expressed substantial doubt about our ability to continue as a going concern;
- our results of operations, financial condition and business prospects;
- changes in and trends in reimbursement amounts;
- conditions in the medical device industry and competition from other BPH treatment providers; and
- general economic conditions, including the availability of credit and lending standards of banks and other financial institutions.

If we are unable to increase revenues or obtain additional capital in an amount sufficient for our needs and in a timely manner, we may be required to further reduce our expenses and curtail our capital expenditures, sell our assets, or suspend or discontinue our operations.

Risks Related to Our Business

Third party reimbursement is critical to market acceptance of our products.

Our future revenues are subject to uncertainties regarding health care reimbursement and reform. In the United States, health care providers, such as hospitals and urologists, generally rely on third-party payers. Third-party reimbursement is dependent upon decisions by the CMS, contracted Medicare carriers or intermediaries, individual managed care organizations, private insurers, foreign governmental health programs and other payers of health care costs. Failure to receive or maintain favorable coding, coverage and reimbursement determinations for our products by these organizations could discourage urologists from using our products. We may be unable to sell our products on a profitable basis if third-party payers deny coverage, provide low reimbursement rates or reduce their current levels of reimbursement.

The continuing efforts of government, insurance companies, health maintenance organizations and other payers of health care costs to contain or reduce costs of health care may affect our future revenues and profitability. With recent federal and state government initiatives directed at lowering the total cost of health care, the United States Congress and state legislatures will likely continue to focus on health care reform including the reform of the Medicare and Medicaid entitlement programs, and on the cost of medical products and services. Additionally, third-party payers are increasingly challenging the prices charged for medical products and services. The cost containment measures that health care payers and providers are instituting and the effect of any health care reform could cause reductions in the amount of reimbursement available, and

could have a materially adverse effect on our revenues and the ability to operate profitably. We have an active reimbursement strategy, and have retained consultative experts to assist us with communicating the significant benefit to the healthcare system this safe and effective minimally invasive office-based therapy delivers to the second most commonly diagnosed medical problem for men over the age of 60.

We are faced with intense competition and rapid technological and industry change.

We face intense competition from other providers of therapies and treatments for BPH, primarily the pharmaceutical companies that sell BPH medications. Drug therapy is currently the first-line therapy prescribed by most physicians – both primary care physicians and urologists – in the United States for BPH. We also face competition from other device manufacturers and surgical manufacturers that provide BPH therapies. Nearly all of our competitors are significantly larger than we are and have greater financial, technical, research, marketing, sales, distribution and other resources than we do. We believe that urologists choose among BPH treatments based upon a number of factors, including patient comfort and safety, price and reimbursement rates, and effectiveness. Our sales and marketing efforts are focused on differentiating our products from other competitive BPH therapies based upon these factors with the goal of establishing our products as the first-line therapy prescribed by most physicians. We believe that in order to compete successfully with pharmaceutical companies, we must develop and execute compelling sales and marketing campaigns that educate urologists and patients to the superiority of our products. However, even if we are able to compete successfully, we may not be able to do so in a profitable manner.

Additionally, the medical device and pharmaceutical industries are characterized by rapid technological change, changing customer needs and frequent new product introductions. Our products may be rendered obsolete as a result of future innovations. Our competitors may develop or market technologies, products and services, including drug-based treatments that are more effective or commercially attractive than any we are developing or marketing. Our competitors may succeed in obtaining regulatory approval and introducing or commercializing products before we do. Such developments could have a significantly negative effect on our business, financial condition and results of operations.

All of our revenues are derived from minimally invasive therapies that treat one disease, benign prostatic hyperplasia (BPH).

All of our revenues are derived from sales of our Cooled ThermoTherapy control units and single-use treatment catheters and treatments delivered through our Urologix mobile service and, beginning September 6, 2011, from sales of the Prostiva® Radio Frequency (RF) System. Both Cooled ThermoTherapy products and the Prostiva products are minimally invasive treatments for prostatic hyperplasia (BPH). As a result, our success is solely dependent upon the success of minimally invasive treatments for BPH. We do not have any other lines of business or other significant sources of revenue to rely upon if we are unable to sell our products, if selling prices or the market for those products decline or we are not able to more widely popularize the use of our minimally invasive therapies among urologists and patients. Our lack of diversification means that we may not be able to adapt to changing market conditions, changes in regulation (including regulation affecting reimbursement for our products), increased competition or any decline in demand for minimally invasive BPH treatments.

Government regulation has a significant impact on our business.

Government regulation in the United States and other countries is a significant factor affecting the research and development, manufacture and marketing of our products. In the United States, the FDA has broad authority under the federal Food, Drug and Cosmetic Act and the Public Health Service Act to regulate the distribution, manufacture and sale of medical devices. Sales of medical devices outside the United States are subject to government regulation and restrictions that vary from country to country. In addition, we, along with our distributors and health care providers who purchase our products and services, are subject to state and federal laws prohibiting kickbacks or other forms of bribery in the health care industry. We may be subject to civil and criminal prosecution for violations of any of these laws by our agents or us.

Before any new products we may offer are introduced into the U.S. market, we must obtain prior authorization from the FDA. This authorization is based on a review by the FDA of the medical device's safety and effectiveness for its intended uses. The process of obtaining clearances or approvals from the FDA and other applicable regulatory authorities can be expensive, uncertain and time consuming.

In addition, we may not be able to obtain necessary approvals for clinical testing or for the manufacturing or marketing of any of our products in the United States or in other countries. If regulatory approvals for any of our other products are not obtained on a timely basis, or not approved as submitted, or at all, it could have a significant negative effect on our financial condition and results of operations. Additionally, delays in receipt of regulatory approvals for our products or

failure to receive such approvals, the loss of previously obtained approvals, or failure to comply with existing or future regulatory requirements would have a significant negative effect on our financial condition and results of operations.

Even if such an approval is obtained, our failure to comply with applicable regulatory approvals could, among other things, result in fines, suspension of regulatory approvals, product recalls, operating restrictions and criminal prosecution. In addition, government regulations may be established that could prevent, delay, modify or rescind regulatory approval of our products. Any such position or change of position by the FDA may adversely impact our business and financial condition. Regulatory approvals, if granted, may include significant limitations on the indicated uses for which our products may be marketed in the United States or in other countries. In addition to obtaining such approvals, the FDA and foreign regulatory authorities may impose numerous other requirements on us. The FDA prohibits the marketing of approved medical devices for unapproved uses. In addition, product approvals can be withdrawn for failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing.

In addition, the health care industry in the United States is generally subject to fundamental change due to regulatory as well as political influences. We anticipate that Congress and state legislatures will continue to review and assess alternative health care delivery and payment systems. Potential approaches that have been considered include controls on health care spending through limitations on the growth of private purchasing groups and price controls. We cannot predict what impact the adoption of any federal or state health care reform measures may have on our business.

We are dependent upon a limited number of third-party suppliers to manufacture our CTT products.

We manufacture CoolWave control units and single-use treatment catheters for use with our Targis and CoolWave control units at our suburban Minneapolis facility. Our success will depend upon our ability to cost-effectively manufacture a reliable product and deliver that product in a timely manner. Because we lack experience manufacturing our products in large quantities, we may encounter difficulties in maintaining production efficiencies, quality control and assurance, component supply and qualified personnel. We cannot offer assurance that we will be able to manufacture a reliable product and deliver that product to customers in a timely fashion. Our failure to maintain a reputation among our customers as a timely, responsive manufacturer, or our failure to remedy manufacturing issues in a timely manner and to our customers' satisfaction, or higher than expected manufacturing costs, would adversely affect our business.

Other than the CoolWave control units, Targis and CTC Advance catheter procedure kits, we outsource the remaining manufacturing for our products. We assemble CoolWave control units and procedure kits using materials and components supplied by various subcontractors and suppliers, as well as components we fabricate. We rely on single sources for several components, one of which is obtained from a source that has a patent for the technology. Our reliance on outside suppliers for our components involves risks including limited control over the price and uncertainty regarding timely delivery and quality of parts.

The start-up, transfer, termination or interruption of any of these relationships or products, or the failure of these manufacturers or suppliers, some of which operate in countries outside of the United States, to supply products or components to us on a timely basis or in sufficient quantities, likely would cause us to be unable to meet customer orders for our products and harm our reputation with customers and our business. Identifying and qualifying alternative suppliers of components or manufacturers of products takes time and involves significant additional costs and may delay the production of our products. Further, if we obtain a new supplier for a component, manufacture our product with an alternative component or if our products are manufactured by an alternative manufacturer, we will likely need FDA approval of a PMA supplement to reflect changes in product manufacturing and the FDA may require additional testing of any component from new suppliers prior to our use of these components. Further, if FDA approval of a PMA supplement is required, any delays in delivery of our product to customers would be extended and our costs associated with the change in product manufacturing would increase.

The failure of our third-party manufacturers to manufacture the products for us, and the failure of our components suppliers to supply us with the components, consistent with our requirements as to quality, quantity and timeliness, would materially harm our business.

Our business of the manufacturing, marketing, and sale of medical devices involves the risk of liability claims and such claims could seriously harm our business, particularly if our insurance coverage is inadequate.

Our business exposes us to potential product liability claims that are inherent in the testing, production, marketing and sale of medical devices. Like other participants in the medical device industry, we are from time to time involved in lawsuits, claims and proceedings alleging product liability and related claims such as negligence. If any current or future

product liability claims become substantial, our reputation could be damaged significantly, thereby harming our business. We may be required to pay substantial damage awards as a result of any successful product liability claims. Any product liability claim against us, whether with or without merit, could result in costly litigation, and divert the time, attention, and resources of our management.

As a result of our exposure to product liability claims, we currently carry product liability insurance covering our products with policy limits per occurrence and in the aggregate that we have deemed to be sufficient. Our insurance may not cover certain product liability claims or our liability for any claims may exceed our coverage limits. Therefore, we cannot predict whether this insurance is sufficient, or if not, whether we will be able to obtain sufficient insurance to cover the risks associated with our business or whether such insurance will be available at premiums that are commercially reasonable. In addition, these insurance policies must be renewed annually. Although we have been able to obtain liability insurance, such insurance may not be available in the future on acceptable terms, if at all. A successful claim against us or settlement by us with respect to uninsured liabilities or in excess of our insurance coverage, or our inability to maintain insurance in the future, or any claim that results in significant costs to or adverse publicity against us, could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on adequate protection of our patent and proprietary rights.

We rely on patents, trade secrets, trademarks, copyrights, know-how, license agreements and contractual provisions to establish and protect our intellectual property rights. However, these legal means afford us only limited protection and may not adequately protect our rights or remedies to gain or keep any advantages we may have over our competitors.

Other competitors may independently develop the same or similar technologies or otherwise obtain access to our technology and trade secrets. Our competitors, many of which have substantial resources and may make substantial investments in competing technologies, may apply for and obtain patents that will prevent, limit, or interfere with our ability to manufacture or market our products. Further, while we do not believe that any of our products or processes interfere with the rights of others, third parties may nonetheless assert patent infringement claims against us in the future.

Costly litigation may be necessary to enforce patents issued to us, to protect trade secrets or “know-how” we own, to defend us against claimed infringement of the rights of others or to determine the ownership, scope, or validity of our proprietary rights and the rights of others. In connection with the settlement of a patent infringement suit we filed in March 2002, we granted, in January 2004, ProstaLund AB, ProstaLund Operations AB and Circon Corporation (a/k/a ACMI Corporation) a non-exclusive, royalty free license under certain of our patents to sell the ProstaLund transurethral microwave thermotherapy system marketed in the United States by ACMI Corporation as the CoreTherm device.

Any claim of infringement against us may involve significant liabilities to third parties, could require us to seek licenses from third parties, and could prevent us from manufacturing, selling, or using our products. The occurrence of this litigation or the effect of an adverse determination in any of this type of litigation could have a material adverse effect on our business, financial condition and results of operations.

Our products may be subject to product recalls even after receiving FDA clearance or approval, which would harm our reputation and our business.

The FDA and similar governmental authorities in other countries in which our products are sold, have the authority to request and, in some cases, require the recall of our products in the event of material deficiencies or defects in design, manufacture or labeling. A government-mandated or voluntary recall by us could occur as a result of component failures, manufacturing errors, labeling errors or design defects. Any recall of product would divert managerial and financial resources, harm our reputation with our customers and damage our business.

We are dependent on key personnel.

Our failure to attract and retain skilled personnel could hinder the management of our business, our research and development, our sales and marketing efforts, and our manufacturing capabilities. Our future success depends to a significant degree upon the continued services of key senior management personnel, including Stryker Warren, Jr., our Chief Executive Officer, Gregory J. Fluet, our Chief Operating Officer, Brian J. Smrdel, our Chief Financial Officer, Ralph Cardinal, our Vice President of Research and Development and Lisa Ackermann, our Vice President of Sales and Marketing. Each of these members of senior management is employed “at will” by us. However, if there is a change in control and we terminate Mr. Warren’s, Mr. Fluet’s or Mr. Smrdel’s employment without cause, we would be required to make specified payments to him as described in his respective employment agreement. We do not have key person life insurance on any member of senior management.

Our future success also depends on our continuing ability to attract, retain and motivate highly qualified managerial, technical and sales personnel. During the past year we experienced turnover in our sales force. Our inability to retain or attract qualified personnel could have a significant negative effect and thereby materially harm our business and financial condition.

Risks Related to Our Common Stock

We currently fail to meet one of Nasdaq's listing requirements and if our common stock is delisted it may then become illiquid.

Our common stock is listed on The Nasdaq Capital Market. On August 12, 2011, we received a letter from The Nasdaq Stock Market which stated that the bid price of our common stock was below the minimum \$1.00 per share for 30 consecutive business days. Therefore, we are not in compliance with the requirements for continued listing on the Nasdaq Capital Market. Under the Listing Rules, we have 180 days, or until February 8, 2012, to regain compliance with the minimum bid price requirement for continued listing. In order to achieve compliance with the bid price requirement, our common stock must maintain a closing \$1.00 bid price for a minimum of 10 consecutive business days during the compliance period.

If we fail to regain compliance with the minimum bid price requirement or if at any time we fail to satisfy each of the other requirements for continued listing, our common stock will be delisted from The Nasdaq Capital Market. If delisted from The Nasdaq Capital Market, our common stock will likely be quoted in the over-the-counter market in the so-called "pink sheets" or quoted in the OTC Bulletin Board. In addition, our common stock would be subject to the rules promulgated under the Securities Exchange Act of 1934 relating to "penny stocks." These rules require brokers who sell securities that are subject to the rules, and who sell to persons other than established customers and institutional accredited investors, to complete required documentation, make suitability inquiries of investors and provide investors with information concerning the risks of trading in the security. Consequently, we believe an investor would find it more difficult to buy or sell our common stock in the open market if it were quoted on the over-the-counter market or the OTC Bulletin Board. There can be no assurance that our common stock may be sold without a significant negative impact on the price per share that may make it more difficult for us to meet the minimum bid price requirement or that any market will continue to exist for our common stock.

Fluctuations in our future operating results may negatively affect the market price of our common stock.

Our operating results have fluctuated in the past and can be expected to fluctuate from time to time in the future. Some of the factors that may cause these fluctuations include but are not limited to:

- the timing, volume and pricing of customer orders for both control units and procedure kits,
- the impact to the marketplace of competitive products and pricing,
- the timing of expenditures related to sales and marketing, and research and development,
- product availability and cost, and
- changes in or announcements regarding potential changes to CMS reimbursement rates.

If our operating results are below the expectations of securities analysts or investors, the market price of our common stock may fall abruptly and significantly.

Our stock price may be volatile and a shareholder's investment could decline in value.

Our stock price has fluctuated in the past and may continue to fluctuate significantly, making it difficult for an investor to resell shares or to resell shares at an attractive price. The market prices for securities of technology companies have historically been highly volatile. Future events concerning us or our competitors could cause such volatility, including:

- actual or anticipated variations in our operating results,
- technological innovations or new commercial products introduced by our competitors,
- developments regarding government and third-party reimbursement,
- changes in government regulation,
- government investigation of us or our products,
- result of regulatory process for approval of our devices,
- changes in reimbursement rates or methods affecting our products,
- developments concerning proprietary rights,
- litigation or public concern as to the safety of our products or our competitors' products,
- our compliance with the requirements for continued listing on The NASDAQ Stock Market and disclosures regarding our non-compliance with any requirement,
- investor perception of us and our industry,
- general economic and market conditions including market uncertainty,

- national or global political events,
- difficulties with international expansion or operations,
- public confidence in the securities markets and regulation by or of the securities markets, and
- changes in senior management.

In addition, the stock market is subject to price and volume fluctuations that affect the market prices for companies in general, and small-capitalization, high-technology companies in particular, which are often unrelated to the operating performance of these companies. Any failure by us to meet or exceed estimates of financial analysts is likely to cause a decline in our common stock price.

Future sales of shares of our common stock may negatively affect our stock price.

Future sales of our common stock could have a significant negative effect on the market price of our common stock. In addition, upon exercise of outstanding options, the number of shares outstanding of our common stock could increase substantially. This increase, in turn, could dilute future earnings per share, if any, and could depress the market value of our common stock. Dilution and potential dilution, the availability of a large amount of shares for sale, and the possibility of additional issuances and sales of our common stock may negatively affect both the trading price and liquidity of our common stock. These sales also might make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that we would deem appropriate.

Provisions of Minnesota law, our governing documents and other agreements may deter a change of control of us and have a possible negative effect on our stock price.

Certain provisions of Minnesota law, our articles of incorporation and bylaws and other agreements may make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire control of us, including:

- the provisions of Minnesota law relating to business combinations and control share acquisitions,
- the provisions of our bylaws regarding the business properly brought before shareholders,
- the provisions of our articles of incorporation and bylaws regarding our staggered board of directors,
- the right of our board of directors to establish more than one class or series of shares and to fix the relative rights and preferences of any such different classes or series, and
- the provisions of our stock option plans allowing for the acceleration of vesting or payments of awards granted under the plans in the event of specified events that result in a “change in control” and provisions of agreements with certain of our executive officers requiring payments if their employment is terminated and there is a “change in control.”

These measures could discourage or prevent a takeover of us or changes in our management, even if an acquisition or such changes would be beneficial to our shareholders. This may have a negative effect on the price of our common stock.

Risks Related to the Prostiva RF Therapy System and Related Agreements

On September 6, 2011, we entered into a license agreement and other agreements with Medtronic, Inc. (“Medtronic”) and its subsidiary relating to the Prostiva RF Therapy System. For a summary of the agreements with Medtronic, please see “Prostiva Product and Related Agreements” in Item 1 “Business.” The addition of the Prostiva RF product to our business and these agreements present risks to us and our business that are described below.

The license for the Prostiva RF Therapy System could result in operating difficulties and other harmful consequences that may adversely impact our business and results of operations.

The process of integrating the Prostiva RF Therapy System business into the existing Urologix business may involve operating difficulties and expense. The areas where we face risks include:

- Diversion of management time and focus from operating our business to the integration challenges;
- Coordination of product, customer service, sales and marketing, and regulatory functions with Medtronic during the transition period under the Transition Agreement;
- Transition of customers to Urologix;
- Cultural challenges associated with integrating the Prostiva sales employees into our organization and retention of these employees, as well as retention of our current sales and other employees during this period of change at our company;
- Challenges associated with cross training sales personnel on multiple products;
- Failure to successfully further develop the market for the Prostiva product;
- Failure to obtain required approvals from governmental authorities on a timely basis, if it all, which could, among other things, delay or prevent us from being able to market and sell the Prostiva product on our own; and
- Our ability to fund resolutions of or mitigation of these risks, given our current capital resources.

Our failure to address these risks or other problems encountered in connection with the Prostiva license transaction could cause us to fail to realize the anticipated benefits of this transaction, incur unanticipated liabilities, and harm our business generally.

The Prostiva RF Therapy System license and other agreements require significant future payments.

Under the License Agreement and Transition Agreement with Medtronic for the Prostiva RF Therapy System, we are obligated to make certain future payments, including:

- \$500,000, less the \$147,000 purchase price paid under the Asset Purchase Agreement, on September 6, 2012 representing the other half of the initial license fee
- \$65,000 on September 6, 2012 and annually thereafter as a license maintenance fee
- Royalties on net sales of product payable thirty days following the end of each contract year (or minimum royalty amounts that are payable ninety days following the end of each contract year)
- \$147,000 on September 6, 2012 under the Asset Purchase Agreement as payment for the purchase price for the assets to be sold to us
- \$30,000 per month under the Transition Agreement beginning November 2011 for Medtronic's performance of the transition services

There can be no assurance that we will generate sufficient cash flow to fund these payment or that we will obtain additional cash from a debt or equity financing on a timely basis sufficient to fund these payments. Our failure to pay these amounts when due would be a breach of the agreement requiring the payment and the related agreements, entitling Medtronic to terminate these agreements and our right to sell the Prostiva product after proper notice and an opportunity to cure.

The addition of the Prostiva RF Therapy System to our product portfolio may result in the aggravation of certain risks to our business.

As detailed above, we face a number of risks in our business and risks associated with our Cooled ThermoTherapy products. Because the addition of the Prostiva RF Therapy System to our product portfolio presents some of these same risks to us, these risks may be magnified. For example, with the Prostiva RF Therapy System, we face risks associated with:

- reliance on third party reimbursement;
- intense competition, primarily from pharmaceutical companies that market and sell BPH medication;
- our lack of diversification because our products are minimally invasive treatments for BPH;
- significant impact of government regulation;
- risk of product liability claims; and
- the possibility of product recalls.

If we are unable to address these risks as they relate to both the CTT and Prostiva products, our results of operations, cash flows and the value of our common stock would be negatively impacted.

We are dependent upon a limited number of third-party suppliers for the Prostiva RF Therapy System.

We outsource the manufacturing of the Prostiva product line. Our reliance on outside suppliers involves risks including limited control over the price and uncertainty regarding timely delivery and quality of products.

The start-up, transfer, termination or interruption of any of these relationships or products, or the failure of these manufacturers or suppliers, some of which operate in countries outside of the United States, to supply products to us on a timely basis or in sufficient quantities, likely would cause us to be unable to meet customer orders for our products and harm our reputation with customers and our business. Identifying and qualifying alternative manufacturers of products takes time and involves significant additional costs and may delay the production of our products. Further, if our products are manufactured by an alternative manufacturer, we will likely need FDA approval of a PMA supplement to reflect changes in product manufacturing. Further, if FDA approval of a PMA supplement is required, any delays in delivery of our product to customers would be extended and our costs associated with the change in product manufacturing would increase.

The failure of our third-party manufacturers to manufacture the products for us, consistent with our requirements as to quality, quantity and timeliness, would materially harm our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease approximately 26,000 square feet of office, manufacturing and warehouse space in a suburb of Minneapolis, Minnesota. On September 9, 2010, the Company entered into a new lease agreement with our current landlord,

covering the same square footage, for a period of seventy-two months, effective August 1, 2010. We believe our facilities will be sufficient to meet our current and future requirements and that additional space at or near the current location will be available at a reasonable cost if additional space is required in the future.

ITEM 3. LEGAL PROCEEDINGS

We have been and are involved in various legal proceedings and other matters that arise in the normal course of our business, including product liability claims that are inherent in the testing, production, marketing and sale of medical devices. Based upon currently available information, we believe that the ultimate resolution of these matters will not have a material effect on the financial position, liquidity or results of operations of the Company.

ITEM 4. [REMOVED AND RESERVED]

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Capital Market under the symbol "ULGX." The following table sets forth quarterly high and low last-sale prices of our common stock for each quarter during the past two fiscal years.

Fiscal Year		Quarter			
		First	Second	Third	Fourth
2011	High	\$1.07	\$0.97	\$0.76	\$1.05
	Low	0.82	0.60	0.55	0.58
2010	High	\$1.31	\$2.02	\$2.02	\$1.68
	Low	0.84	0.81	1.33	0.93

The foregoing prices reflect inter-dealer prices, without dealer markup, markdown or commissions, and may not represent actual transactions.

Dividends

To date, we have not declared or paid any cash dividends on our common stock, and we do not intend to do so in the foreseeable future.

Equity Compensation Plan Information

The table below presents our equity compensation plan information as of June 30, 2011:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	1,950,303	\$1.70	538,378
Equity compensation plan not approved by security holders	-	-	-
Total	1,950,303	\$1.70	538,378

The "equity compensation plans approved by security holders" listed above represent shares issuable under the Urologix, Inc. Amended and Restated 1991 Stock Option Plan, an "employee benefit plan" as defined by Rule 405 of Regulation C of the Securities Act of 1933. Shareholders approved the most recent amendment to the Amended and Restated 1991 Stock Option Plan, which, among other things, increased the number of shares of common stock available under the plan by 1,000,000 shares at the 2004 Annual Meeting of Shareholders held on November 9, 2004.

ITEM 6. SELECTED FINANCIAL DATA

	Years ended June 30,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Statements of Operations Data:					
Sales	\$ 12,571	\$ 14,771	\$ 12,816	\$ 14,906	\$ 21,317
Cost of goods sold	6,030	6,569	6,367	6,893	13,893(3)
Gross profit	6,541	8,202	6,449	8,013	7,424
Costs and Expenses:					
Selling, general and administrative	8,005	8,601	8,534	11,767	11,086
Research and development	2,238	1,834	2,356	2,780	3,026
Amortization and impairment of identifiable intangible assets	24	24	24	71	2,244(4)
Impairment of goodwill	-	-	-	10,193(1)	-
Total costs and expenses	10,267	10,459	10,914	24,811	16,356
Operating loss	(3,726)	(2,257)	(4,465)	(16,798)	(8,932)
Interest income, net	1	—	53	400	554
Loss before income taxes	(3,725)	(2,257)	(4,412)	(16,398)	(8,378)
Income tax expense (benefit)	8	(88)	7	(1,501)(2)	4,859(5)
Net loss	\$ (3,733)	\$ (2,169)	\$ (4,419)	\$ (14,897)	\$ (13,237)
Basic:					
Net loss per common share:	\$ (0.26)	\$ (0.15)	\$ (0.31)	\$ (1.04)	\$ (0.92)
Weighted average shares used in computing net loss per share	14,556	14,508	14,469	14,338	14,332
Diluted:					
Net loss per common share:	\$ (0.26)	\$ (0.15)	\$ (0.31)	\$ (1.04)	\$ (0.92)
Weighted average shares used in computing net loss per share	14,556	14,508	14,469	14,338	14,332
	2011	2010	2009	2008	2007
Balance Sheet Data:					
Cash and cash equivalents	\$ 3,061	\$ 5,702	\$ 7,032	\$ 11,031	\$ 12,250
Working capital	4,038	6,720	7,963	11,259	16,067
Total assets	6,763	10,203	12,141	17,480	32,653
Total liabilities	1,917	1,997	2,216	3,633	4,778
Shareholders' equity	4,846	8,206	9,925	13,847	27,875

- (1) Represents a \$10.2 million non-cash charge to fully impair our goodwill as of December 31, 2007.
- (2) Represents the non-cash reversal of our deferred tax liability of \$1.6 million as a result of the impairment of our goodwill, partially offset by state taxes.

- (3) Includes the following non-cash charges as a result of the implementation of an end-of-life plan for our Prostatron control units and Prostate probe catheters in connection with our strategy to develop a next generation catheter:

Inventory write-down	\$ 213,000
Fixed asset impairment	178,000
Developed technology intangible asset impairment	4,044,000
	<u>\$ 4,435,000</u>

- (4) Includes the following non-cash charges as a result of the implementation of an end-of-life plan for our Prostatron control units and Prostate probe catheters in connection with our strategy to develop a next generation catheter:

Trademark intangible asset impairment	\$ 969,000
Customer base intangible asset impairment	991,000
	<u>\$ 1,960,000</u>

- (5) Includes a \$4.8 million non-cash income tax expense to increase the valuation allowance to fully reserve our deferred tax assets that will not reverse against deferred tax liabilities within the scheduled reversal period.

SELECTED QUARTERLY FINANCIAL DATA

	<u>Year Ended June 30, 2011</u>			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(in thousands, except per share data)			
Sales	\$3,352	\$3,321	\$2,982	\$2,916
Gross profit	1,829	1,848	1,612	1,252(2)
Loss before income taxes	(702)	(721)	(986)	(1,316)
Net Loss	(708)	(712)	(983)	(1,330)
Basic net loss per share	\$(0.05)	\$(0.05)	\$(0.07)	\$(0.09)
Diluted net loss per share	\$(0.05)	\$(0.05)	\$(0.07)	\$(0.09)

	<u>Year Ended June 30, 2010</u>			
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(in thousands, except per share data)			
Sales	\$3,853	\$4,064	\$3,594	\$3,260
Gross profit	2,138	2,329	1,978	1,757
Loss before income taxes	(681)	(282)	(598)	(696)
Net Loss	(677)	(273)(1)	(597)	(622)(1)
Basic net loss per share	\$(0.05)	\$(0.02)	\$(0.04)	\$(0.04)
Diluted net loss per share	\$(0.05)	\$(0.02)	\$(0.04)	\$(0.04)

- (1) An income tax benefit of \$84,000 should have been recorded in the second quarter of fiscal year 2010. The Company recorded the amount as an out-of-period adjustment in the fourth quarter of fiscal year 2010. The adjustment had no impact on the full year fiscal 2010 financial results.
- (2) The Company recorded an out-of-period adjustment of \$158,000 in the fourth quarter of fiscal year 2011 resulting in a charge to the statement of operations to correct over-capitalized manufacturing variances that had accumulated during the previous three quarters. The adjustment had no impact on the full year fiscal 2011 financial results.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and related notes contained elsewhere in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of risks and uncertainties, including those set forth under "Risk Factors" in Item 1A. All forward-looking statements included herein are based on information available to us as of the date hereof, and we undertake no obligation to update any such forward-looking statements.

OVERVIEW

Urologix develops, manufactures, and markets non-surgical, catheter-based therapies that use a proprietary cooled microwave technology for the treatment of benign prostatic hyperplasia (BPH), a disease that affects more than 23 million men worldwide. We market our control units under the CoolWave® and Targis® names and our procedure kits, that consist of a disposable treatment catheter, Rectal Thermal Unit (RTU) balloon and coolant bag, under the CTC Advance®, Targis, and ProstateProbe™ names. All systems utilize the Company's Cooled ThermoTherapy™ (CTT) technology, a targeted microwave energy combined with a unique cooling mechanism that protects healthy tissue and enhances patient comfort while providing safe, effective, lasting relief from the symptoms of BPH by the thermal ablation of hyperplastic prostatic tissue. Cooled ThermoTherapy can be performed without general anesthesia or intravenous sedation and can be performed in a urologist's office or an outpatient clinic. We believe that Cooled ThermoTherapy provides an efficacious, safe and cost-effective solution for BPH with results clinically superior to medication and without the complications and side effects inherent in surgical procedures.

We believe that third-party reimbursement is essential to the continued adoption of Cooled ThermoTherapy, and that clinical efficacy, overall cost-effectiveness and physician advocacy will be keys to maintaining such reimbursement. We estimate that 70% to 80% of patients who receive Cooled ThermoTherapy treatment in the United States are eligible for Medicare coverage. The remaining patients will be covered by either private insurers, including traditional indemnity health insurers and managed care organizations, or they will be private paying patients. As a result, Medicare reimbursement is particularly critical for widespread market adoption of Cooled ThermoTherapy in the United States.

We will continue to invest in research and development and clinical trials to improve our products and our therapy. These investments are intended to broaden our product offering and expand the clinical evidence supporting our proprietary Cooled ThermoTherapy treatment for BPH. We continue to highlight our five year durability data and the ability of urologists using our system to customize the treatment for patients.

We have incurred net losses of \$3.7 million in fiscal year 2011, and \$2.2 million and \$4.4 million in the fiscal years ended 2010 and 2009, respectively. In addition, we have accumulated aggregate net losses since the inception of business through June 30, 2011 of \$110.0 million. Subsequent to the end of our fiscal year, we entered into a license agreement with Medtronic and paid Medtronic \$500,000 of the \$1,000,000 initial license fee on September 6, 2011. As a result of our history of operating losses and negative cash flows from operations, the licensing fee and integration expenses related to the Prostiva product, and the uncertainty regarding our ability to obtain additional capital, our auditors have expressed substantial doubt about our ability to continue as a going concern.

Our financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary as a result of this uncertainty.

As stated in our press release of September 6, 2011 announcing the Prostiva RF Therapy System license, we expect revenues in fiscal year 2012 from the combined CTT and Prostiva product lines to be in the range of \$18 to \$20 million. Our actual revenue results could differ materially from our expectation as a result of risks and uncertainties, including those set forth in Item 1A "Risks Factors" of this Form 10-K.

Critical Accounting Policies and Estimates:

In accordance with Securities and Exchange Commission guidance, we set forth below those material accounting policies that we believe are the most critical to an investor's understanding of our financial results and condition, and require complex management judgment.

Revenue Recognition

We recognize revenue from the sale of Cooled ThermoTherapy control units upon delivery to the customer. In addition to our sales of Cooled ThermoTherapy control units, we place our Cooled ThermoTherapy control units with customers free of charge under a variety of programs for both evaluation and long-term use, and also provide access to Cooled ThermoTherapy treatments via our Urologix mobile service. We retain title to the control units placed with our customers for evaluation and longer-term use. These programs, as well as our Urologix mobile service, are designed to expand access to our technology, and thus expand the market for our single-use treatment catheters. Revenue for the free use of our Cooled ThermoTherapy control units are bundled with the sale of single-use treatment catheters and are considered a single unit of accounting. Revenue from the bundled sales is recognized when the single-use treatment catheters are shipped to our customers. Revenue from our mobile service is recognized upon treatment of the patient. Revenue for extended warranty service contracts is deferred and recognized over the contract period. We record a provision for estimated sales returns on product sales in the same period as the related revenue is recorded. The provision for estimated sales returns is based on historical sales returns, analysis of credit memo data and specific customer-based circumstances. Should actual sales returns differ from our estimates, revisions to the sales return reserve would be required. Sales and use taxes are reported on a net basis, excluding them from revenue.

Inventories

We value our inventories, consisting primarily of control units, single-use treatment catheters, and raw materials to produce the control units and treatment catheters, at the lower of cost or market value on a first-in, first-out ("FIFO") basis. The inventory cost includes both merchandise and freight. A periodic review of the inventory on hand is performed to determine if the inventory is properly stated at the lower of cost or market. In performing this analysis we consider, at a minimum, the following factors: average selling prices, reimbursement changes, and changes in demand for our products due to competitive conditions or market acceptance. Each type of inventory is analyzed to determine net realizable values. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if required.

We also analyze the level of inventory on hand on a periodic basis, in relation to estimated customer requirements to determine whether write-downs for excess, obsolete, or slow-moving inventory are required. Any significant or unanticipated change in the factors noted above could have a significant impact on the value of our inventories and on our reported operating results.

Valuation of Long-Lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset or asset group is considered impaired if its carrying amount exceeds the undiscounted future net cash flows the asset or asset group is expected to generate. If an asset or asset group is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. If estimated fair value is less than the book value, the asset is written down to the estimated fair value and an impairment loss is recognized.

In fiscal year 2011, we did not generate positive cash flows from operations. If our long-term future plans do not yield positive cash flows in excess of the carrying amount of our long-lived assets, we would anticipate possible future impairments of those assets.

Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of long-lived assets, including the operating and macroeconomic factors that may affect them. We use historical financial information, internal plans and projections and industry information in making such estimates.

Income Taxes

We utilize the asset and liability method of accounting for income taxes. We recognize deferred tax liabilities or assets for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities. We regularly assess the likelihood that our deferred tax assets will be recovered from future taxable income. We consider projected future taxable income and ongoing tax planning strategies in assessing the amount of the valuation allowance necessary to offset our deferred tax assets that will not be recoverable. We have recorded and continue to carry a full valuation allowance against our gross deferred tax assets that will not reverse against deferred tax liabilities within the scheduled reversal period. If we determine in the future that it is more likely than not that we will realize all or a portion of our deferred tax assets, we will adjust our valuation allowance in the period we make the determination. We expect to provide a full valuation allowance on our future tax benefits until we can sustain a level of profitability that demonstrates our ability to realize these assets. At June 30, 2011, we carried a valuation allowance of \$35.7 million against our net deferred tax assets.

Stock-Based Compensation

The Company uses the fair value recognition provisions of the revised authoritative guidance for equity-based compensation and applies the modified prospective method in determining stock compensation expense. Stock compensation expense is based on the fair value of the award at the date of grant and is recognized over the requisite service period which corresponds to the vesting period. Options and restricted stock awards typically vest 25 percent after the first year of service with the remaining vesting 1/36th each month thereafter. Generally, options granted to non-employee directors are immediately exercisable at the date of grant while restricted stock awards generally vest after one year. Options are priced based on the closing price of a share of our common stock at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. To determine the inputs for the Black-Scholes option pricing model, we use historical data to estimate expected volatility and the period of time that option grants are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The range of these assumptions and the range of option pricing and number of options granted at the different grant dates will impact our calculation of the fair value of the awards and will therefore impact the amount of expense reflected in our statement of operations for any given period. Fair value for restricted stock is based on the market price on the day of grant.

Results of Operations

Fiscal Years Ended June 30, 2011 and 2010

Net Sales

Net sales decreased 15 percent to \$12.6 million in fiscal year 2011 from \$14.8 million in fiscal year 2010. The decrease in sales from fiscal year 2010 is primarily due to decreased orders in all sales channels: direct, mobile and third-party mobile.

During fiscal year 2011, revenue from catheter sales to direct accounts constituted 37 percent of sales compared to 36 percent in the prior fiscal year, while catheter sales to third party mobiles constituted 14 percent of revenue in the current fiscal year compared to 15 percent in fiscal year 2010. Revenue derived from the Urologix mobile service constituted 46 percent of total sales in fiscal year 2011 compared to 47 percent in the prior fiscal year. The remaining three percent of our sales in fiscal year 2011 were from sales of our control units, warranty service contracts, and non-kit items.

Cost of Goods Sold and Gross Profit

Cost of goods sold includes raw materials, labor, overhead, and royalties incurred in connection with the production of our Cooled ThermoTherapy control units and single-use treatment catheters, as well as costs associated with the delivery of our Urologix mobile service. Cost of goods sold for fiscal year 2011 decreased to \$6.0 million, or 8 percent, from \$6.6 million in fiscal year 2010. This decrease in cost of goods sold is attributed to the 15 percent decrease in sales year over year, partially offset by higher manufacturing expense per unit.

Gross profit as a percentage of sales decreased to 52% in fiscal year 2011 from 56% in the prior fiscal year. The four percentage point decrease in fiscal year 2011 as compared to fiscal year 2010 is a result of higher manufacturing expense per unit due to lower production volume of our treatment catheters, which provided a smaller base to absorb our fixed manufacturing overhead costs.

Selling, General & Administrative

Selling, general and administrative expenses in fiscal year 2011 decreased \$596,000, or 7 percent, to \$8.0 million from \$8.6 million in fiscal year 2010. The decrease in selling, general and administrative expense is the result of a \$459,000 decrease in sales and marketing expenses due to the \$489,000 decrease in commission expense resulting from the lower sales volume. In addition, general and administrative expenses decreased by \$136,000 due to a \$96,000 decrease in bonus expense and a \$45,000 decrease in legal and audit expenses.

Research and Development

Research and development expenses, which include expenditures for product development, regulatory compliance and clinical studies, increased to \$2.2 million for fiscal year 2011, an increase of 22 percent from \$1.8 million in fiscal year 2010. The increase in research and development is due to a \$371,000 increase in wages as a result of an increase in headcount, as well as an \$89,000 increase in product testing and project materials as we continue to invest in research and development activities. These increases were partially offset by a \$51,000 decrease in the bonus accrual.

Amortization of Identifiable Intangible Assets

Amortization of identifiable intangible assets remained consistent at \$24,000 in fiscal years 2011 and 2010. This amortization expense relates to the amortization of our remaining customer base intangible asset over its remaining useful life of 3.25 years.

Net Interest Income

Interest income remained relatively consistent between fiscal years 2011 and 2010 at approximately \$1,000.

Provision for Income Taxes

We recorded \$8,000 of income tax expense for the fiscal year ended June 30, 2011 compared to an \$88,000 income tax benefit for the fiscal year ended June 30, 2010. The \$8,000 of income tax for the fiscal year ended June 30, 2011 was the result of recording \$11,000 of state income tax expense partially offset by a small federal benefit of \$3,000. The \$88,000 income tax benefit for the fiscal year ended June 30, 2010 was the result of recording an income tax benefit of \$84,000 related to a net operating loss carry back claim to recapture alternative minimum tax paid during fiscal years 2005 and 2006 and \$23,000 related to research and development credits. This income tax benefit was partially offset by the recording of \$21,000 of state income tax expense.

Fiscal Years Ended June 30, 2010 and 2009

Net Sales

Net sales increased 15 percent to \$14.8 million in fiscal year 2010 from \$12.8 million in fiscal year 2009. The increase in sales from fiscal year 2009 was primarily due to increased orders for procedure kits as well as an increase in the number of Cooled ThermoTherapy mobile treatments performed.

During fiscal year 2010, revenue from catheter sales to direct accounts constituted 36 percent of sales compared to 35 percent in the prior fiscal year, while catheter sales to third party mobiles constituted 15 percent of revenue in the current fiscal year compared to 14 percent in fiscal year 2009. Revenue derived from the Urologix mobile service constituted 47 percent of total sales in fiscal year 2010 compared to 48 percent in the prior fiscal year. The remaining two percent of our sales in fiscal year 2010 were from sales of our warranty service contracts, non-kit items and other miscellaneous items.

Cost of Goods Sold and Gross Profit

Cost of goods sold includes raw materials, labor, overhead, and royalties incurred in connection with the production of our Cooled ThermoTherapy control units and single-use treatment catheters, as well as costs associated with the delivery of our Urologix mobile service. Cost of goods sold for fiscal year 2010 increased to \$6.6 million or 3 percent from \$6.4 million in fiscal year 2009. This increase in cost of goods sold was attributed to the 15 percent increase in sales year over year. This overall increase was offset by a lower manufacturing expense per unit.

Gross profit as a percentage of sales increased to 56% in fiscal year 2010 from 50% in the prior fiscal year. The six percentage point increase in fiscal year 2010 as compared to fiscal year 2009 was a result of lower manufacturing expense per unit due to higher production volume of our treatment catheters, which provided a larger base to absorb our fixed manufacturing overhead costs. In addition, the delivery cost per treatment for our mobile service decreased by 11% from the prior year.

Selling, General & Administrative

Selling, general and administrative expenses in fiscal year 2010 increased \$67,000, or 1 percent, to \$8.6 million from \$8.5 million in fiscal year 2009. The increase in selling, general and administrative expense was largely the result of a reversal of \$396,000 for a sales tax accrual in the first quarter of fiscal year 2009 and a net increase of \$158,000 for commissions and bonuses achieved during fiscal year 2010. These increases were partially offset by a \$132,000 decrease in freight and shipping costs, a decrease in audit and professional fees of \$89,000, and a decrease in our stock based compensation expense of \$75,000 due to the lower grant date fair value of options in recent periods. In addition, as part of the Company's expense reduction efforts, meeting expense decreased by \$69,000 and recruiting, insurance and travel expense decreased by \$128,000.

Research and Development

Research and development expenses, which include expenditures for product development, regulatory compliance and clinical studies, decreased to \$1.8 million for fiscal year 2010, a decline of 22 percent from \$2.4 million in fiscal year 2009. The decrease in research and development was due to a \$287,000 decrease in consulting and legal fees, a \$213,000 decrease in payroll expenses due to employee turnover and a \$77,000 decrease in expenses associated with clinical studies, offset by a \$63,000 increase in temporary labor and outside services.

Amortization of Identifiable Intangible Assets

Amortization of identifiable intangible assets remained consistent at \$24,000 in fiscal years 2010 and 2009. This amortization expense relates to the amortization of our remaining customer base intangible asset over its remaining useful life of 4.25 years.

Net Interest Income

Due to lower cash balances and lower interest rates in fiscal year 2010, net interest income was less than \$1,000 and is, therefore, not included on the face of the income statement compared to \$53,000 in fiscal year 2009.

Provision for Income Taxes

We recorded \$88,000 of income tax benefit for the fiscal year ended June 30, 2010 compared to \$7,000 of income tax expense for the fiscal year ended June 30, 2009. The \$88,000 of income tax benefit for the fiscal year ended June 30, 2010 was the result of recording an income tax benefit of \$84,000 related to a net operating loss carry back claim to recapture alternative minimum tax paid during fiscal years 2005 and 2006 and \$23,000 related to research and development credits. This income tax benefit was partially offset by the recording of \$21,000 of state income tax expense. The \$7,000 of income tax expense for fiscal year June 30, 2009 was the result of the recording of \$55,000 of state income tax expense partially offset by \$48,000 of an income tax benefit related to research and development credits.

Liquidity and Capital Resources

We have financed our operations since inception through sales of equity securities and, to a lesser extent, sales of our Cooled ThermoTherapy system control units and single-use treatment catheters. As of June 30, 2011, we had total cash and cash equivalents of \$3.1 million compared to cash and cash equivalents of \$5.7 million as of June 30, 2010. The decrease in cash and cash equivalents resulted primarily from our net operating loss of \$3.7 million in fiscal year 2011.

Subsequent to the end of our fiscal year, we entered into a license agreement with Medtronic and paid Medtronic \$500,000 of the \$1,000,000 initial license fee on September 6, 2011. Primarily due to this licensing payment, acquisition and integration related expenses, the net loss incurred in the current business and one-time annual operating expenses such as insurance premiums, as of September 16, 2011 our cash and cash equivalents balance was approximately \$1.5 million. The significant decrease in our cash balance in the first quarter of fiscal year 2012 is not expected to continue throughout the remainder of the fiscal year as the cash outflows in the first quarter related to the annual payments and the licensing fee will not occur again in fiscal year 2012. In addition, as part of the licensing agreement, payments for Prostiva products and royalties are deferred into the next fiscal year while collections of Prostiva revenue commence immediately.

As a result of our history of operating losses and negative cash flows from operations, the licensing fee and integration expenses related to the Prostiva product, and the uncertainty regarding our ability to obtain additional capital, our auditors have expressed substantial doubt about our ability to continue as a going concern. Our cash and cash equivalents may not be sufficient to sustain our day-to-day operations for the next 12 months and our ability to continue as a going concern is dependent upon improving our liquidity. While our primary goal is to generate capital through cash flow from operations, we are also pursuing financing alternatives. We intend to seek additional financing by incurring indebtedness or from an offering of our equity securities or both.

There can be no assurance that the Company will be able to raise additional capital through a debt or equity financing. If the Company does obtain such financing, there can be no assurance that additional financing will be obtained in an amount that is sufficient for our needs, in a timely manner, or on terms and conditions acceptable to us or our shareholders. If we are unable to obtain additional capital in an amount sufficient for our needs and in a timely manner, we may be required to further reduce our expenses and curtail our capital expenditures, sell our assets, or suspend or discontinue our operations.

The fiscal year 2011 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Cash Provided by Operating Activities

During fiscal year 2011, we used \$2.4 million of cash from operating activities compared to \$1.3 million in fiscal year 2010 primarily as a result of the increase in our net operating loss. The net loss included non-cash charges of \$565,000 for depreciation and amortization expense and \$369,000 of stock-based compensation expense. Changes in asset and liability balances generated \$463,000 of operating cash flow for the year as a result of a decrease in inventory levels of \$243,000 as a result of reduced production, an increase in accounts payable balance of \$307,000, and a decrease in prepaid expenses of \$234,000, partially offset by a decrease in accrued expenses and deferred income of \$387,000 largely as a result of a decrease in accrued compensation.

Cash Used for Investing Activities

We used \$275,000 for investing activities primarily to purchase leasehold improvements related to a tenant improvement allowance as a result of signing a building lease extension.

Cash Provided by Financing Activities

During fiscal year 2011, we generated \$4,000 from financing activities as a result of proceeds from the exercise of stock options.

Contractual Commitments

We plan to continue offering customers a variety of programs for both evaluation and longer-term use of our Cooled ThermoTherapy control units in addition to purchase options, as well as grow our mobile service which provides urologists and patients with efficient access to our Cooled ThermoTherapy control units on a pre-scheduled basis. As of June 30, 2011, our property and equipment, net, included approximately \$551,000 of control units used in evaluation or longer-term use programs and units used in our Company-owned mobile service. Depending on the growth of these programs, we may use additional capital to finance these programs.

Future contractual commitments that will affect cash flows are as follows (in thousands):

	<u>Fiscal Years</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Building and equipment leases	\$214	\$216	\$211	\$212	\$215

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Recently Issued Accounting Standards

Information regarding recently issued accounting pronouncements is included in Note 2 to the Financial Statements included in this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash equivalent instruments. Increases and decreases in prevailing interest rates generally translate into decreases and increases, respectively, in the fair value of these instruments, as our investments are variable rate investments. Also, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative instruments, the liquidity of the instrument and other general market conditions.

Market risk was estimated as the potential decrease in fair value resulting from a hypothetical 1% change in interest rates and was not materially different from the quarter-end carrying value. Due to the nature of our cash equivalents instruments, we have concluded that we do not have a material market risk exposure.

Our policy is not to enter into derivative financial instruments. We do not have any significant foreign currency exposure since we do not generally transact business in foreign currencies. Therefore, we do not have significant overall currency exposure. In addition, we do not enter into any futures or forward commodity contracts since we do not have significant market risk exposure with respect to commodity prices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included in the Form 10-K:

Management's Report on Internal Control over Financial Reporting	31
Report of Independent Registered Public Accounting Firm	32
Balance Sheets as of June 30, 2011 and 2010	33
Statements of Operations for the years ended June 30, 2011, 2010 and 2009	34
Statements of Shareholders' Equity for the years ended June 30, 2011, 2010 and 2009	35
Statements of Cash Flows for the years ended June 30, 2011, 2010 and 2009	36
Notes to Financial Statements	37

Management's Report on Internal Control over Financial Reporting

The Board of Directors and Shareholders
Urologix, Inc.:

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a15-(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of June 30, 2011.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm, KPMG LLP, regarding internal controls over financial reporting. Management's report was not subject to attestation by KPMG LLP pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Urologix, Inc.:

We have audited the accompanying balance sheets of Urologix, Inc. (the Company) as of June 30, 2011 and 2010, and the related statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urologix, Inc. as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2011, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has suffered recurring losses from operations and negative operating cash flows and has entered into a new licensing agreement that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Minneapolis, Minnesota
September 21, 2011

Urologix, Inc.
Balance Sheet
(In thousands)

	June 30,	
	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,061	\$ 5,702
Accounts receivable, net of allowance of \$50 and \$96, respectively	1,358	1,378
Inventories	1,127	1,498
Prepays and other current assets	249	139
Total current assets	5,795	8,717
Property and equipment:		
Property and equipment	11,691	11,669
Less accumulated depreciation	(10,830)	(10,655)
Property and equipment, net	861	1,014
Other assets	5	349
Identifiable intangible assets, net	102	123
Total assets	\$ 6,763	\$ 10,203
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 741	\$ 434
Accrued compensation	454	875
Deferred income	21	169
Other accrued expenses	541	519
Total current liabilities	1,757	1,997
Deferred income	9	-
Other accrued expenses	151	-
Total liabilities	1,917	1,997
Commitments and Contingencies (Note 8)		
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value, 25,000 shares authorized; 14,500 and 14,447 shares issued and outstanding	144	144
Additional paid-in capital	114,733	114,360
Accumulated deficit	(110,031)	(106,298)
Total shareholders' equity	4,846	8,206
Total liabilities and shareholders' equity	\$ 6,763	\$ 10,203

The accompanying notes to financial statements are an integral part of these statements.

Urologix, Inc.
Statements of Operations
(In thousands, except per share data)

	For the Years Ended June 30		
	2011	2010	2009
SALES	\$12,571	\$14,771	\$12,816
COST OF GOODS SOLD	6,030	6,569	6,367
Gross profit	6,541	8,202	6,449
COSTS AND EXPENSES			
Selling, general and administrative	8,005	8,601	8,534
Research and development	2,238	1,834	2,356
Amortization of identifiable intangible assets	24	24	24
Total costs and expenses	10,267	10,459	10,914
OPERATING LOSS	(3,726)	(2,257)	(4,465)
INTEREST INCOME	1	-	53
LOSS BEFORE INCOME TAXES	(3,725)	(2,257)	(4,412)
INCOME TAX EXPENSE (BENEFIT)	8	(88)	7
NET LOSS	\$ (3,733)	\$ (2,169)	\$ (4,419)
NET LOSS PER COMMON SHARE - BASIC	\$ (0.26)	\$ (0.15)	\$ (0.31)
NET LOSS PER COMMON SHARE - DILUTED	\$ (0.26)	\$ (0.15)	\$ (0.31)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	14,556	14,508	14,469
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	14,556	14,508	14,469

The accompanying notes to financial statements are an integral part of these statements.

Urologix, Inc.
Statements of Shareholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance, June 30, 2008	14,383	\$ 144	\$ 113,413	\$ (99,710)	\$ 13,847
Net loss	-	-	-	(4,419)	(4,419)
Stock options exercised	10	-	8	-	8
Vesting of restricted stock	20	-	-	-	-
Stock-based compensation	-	-	489	-	489
Balance, June 30, 2009	14,413	\$ 144	\$ 113,910	\$ (104,129)	\$ 9,925
Net loss	-	-	-	(2,169)	(2,169)
Stock options exercised	14	-	10	-	10
Vesting of restricted stock	20	-	-	-	-
Stock-based compensation	-	-	440	-	440
Balance, June 30, 2010	14,447	\$ 144	\$ 114,360	\$ (106,298)	\$ 8,206
Net loss	-	-	-	(3,733)	(3,733)
Stock options exercised	6	-	4	-	4
Vesting of restricted stock	47	-	-	-	-
Stock-based compensation	-	-	369	-	369
Balance, June 30, 2011	14,500	\$ 144	\$ 114,733	\$ (110,031)	\$ 4,846

The accompanying notes to financial statements are an integral part of these statements

Urologix, Inc.
Statements of Cash Flows
(In thousands)

	For the Years Ended June 30		
	2011	2010	2009
OPERATING ACTIVITIES			
Net loss	(\$ 3,733)	(\$ 2,169)	(\$ 4,419)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	565	793	973
Employee stock-based compensation expense	369	440	489
Provision for bad debts	(46)	47	12
Loss on disposal of assets	12	2	43
Change in operating assets and liabilities:			
Accounts receivable	66	80	256
Inventories	243	(387)	(79)
Prepays and other assets	234	158	221
Accounts payable	307	(28)	(312)
Accrued expenses and deferred income	(387)	(191)	(1,105)
Net cash used for operating activities	<u>(2,370)</u>	<u>(1,255)</u>	<u>(3,921)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	(272)	(81)	(86)
Other	(3)	(4)	-
Net cash used for investing activities	<u>(275)</u>	<u>(85)</u>	<u>(86)</u>
FINANCING ACTIVITIES			
Proceeds from stock option exercises	4	10	8
Net cash provided by financing activities	<u>4</u>	<u>10</u>	<u>8</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,641)	(1,330)	(3,999)
CASH AND CASH EQUIVALENTS			
Beginning of year	5,702	7,032	11,031
End of year	<u>\$ 3,061</u>	<u>\$ 5,702</u>	<u>\$ 7,032</u>
Supplemental cash-flow information			
Income taxes paid during the period	\$ 17	\$ 13	\$ 22
Net carrying amount of inventory transferred to property and equipment	\$ 128	\$ 296	\$ 306

The accompanying notes to financial statements are an integral part of these statements.

UROLOGIX, INC.
Notes to Financial Statements

1. Nature of Business

Description of Operating Activities

Urologix, Inc. (the “Company,” “Urologix,” “we”), based in Minneapolis, develops, manufactures and markets minimally invasive medical products for the treatment of urological disorders. The Company has developed and offers non-surgical, anesthesia-free, catheter-based treatments that use a proprietary cooled microwave technology for the treatment of benign prostatic hyperplasia (BPH), a condition that affects more than 23 million men worldwide. Urologix’ products include the CoolWave(R) and Targis(R) control units and the CTC Advance(TM), Targis(R) and ProstateProbe(R) catheter families. All of Urologix’ products utilize Cooled ThermoTherapy(TM) - targeted microwave energy combined with a unique cooling mechanism to protect healthy tissue and enhance patient comfort - and provide safe, effective, lasting relief of the symptoms of BPH.

2. Significant Accounting Policies

Cash and Cash Equivalents

We classify highly liquid investments with original maturities of 90 days or less as cash equivalents. Cash equivalents are stated at cost, which approximates market value.

Revenue Recognition

We recognize revenue from the sale of Cooled ThermoTherapy™ control units upon delivery to the customer. In addition to our sales of Cooled ThermoTherapy control units, we place our Cooled ThermoTherapy control units with customers free of charge under a variety of programs for both evaluation and long-term use, and also provide access to Cooled ThermoTherapy treatments via our Urologix mobile service. We retain title to the control units placed with our customers for evaluation and longer-term use. These programs, as well as our Urologix mobile service, are designed to expand access to our technology, and thus expand the market for our single-use treatment catheters. Revenue for the free use of our Cooled ThermoTherapy control units is bundled with the sale of single-use treatment catheters and is considered a single unit of accounting. Revenue from the bundled sales is recognized as the single-use treatment catheters are shipped to our customers. Revenue from our mobile service is recognized upon treatment of the patient. Revenue for extended warranty service contracts is deferred and recognized ratably over the contract period. We record a provision for estimated sales returns on product sales in the same period as the related revenue is recorded. The provision for estimated sales returns is based on historical sales returns, analysis of credit memo data and specific customer-based circumstances. Should actual sales returns differ from our estimates, revisions to the sales return reserve would be required. Sales and use taxes are reported on a net basis, excluding them from revenue.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We consider factors such as past experience, credit quality of the customer base, age of the receivable balances, both individually and in the aggregate, and current economic conditions that may affect a customer’s ability to pay when determining the adequacy of the allowance. Accounts receivable are written-off after management determines they are uncollectible.

UROLOGIX, INC.
Notes to Financial Statements

Bad debt and sales returns provisions and accounts receivable write-offs for the years ended June 30, 2011, 2010 and 2009 were as follows (in thousands):

Years Ended	Beginning Balance	Provisions	Write-offs	Ending Balance
June 30, 2011	\$96	(\$10)	(\$36)	\$50
June 30, 2010	72	47	(23)	96
June 30, 2009	153	12	(93)	72

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out (FIFO) basis and consist of (in thousands):

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Raw materials	\$ 558	\$ 702
Work-in-process	154	208
Finished goods	415	588
Total inventories	<u>\$ 1,127</u>	<u>\$ 1,498</u>

Long-Lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or if cash flows from operations in a given year are not positive. An asset or asset group is considered impaired if its carrying amount exceeds the undiscounted future net cash flow the asset or asset group is expected to generate. If an asset or asset group is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the individual asset exceeds its fair value. If estimated fair value is less than the carrying amount, the asset is written down to the estimated fair value and an impairment loss is recognized. No impairment charges were recorded in fiscal years 2011 or 2010.

Remaining long-lived intangible assets consist of a customer base with a net book value of \$78,000 and capitalized patents with a net book value of \$24,000. Future annual amortization expense for the customer base is expected to be approximately \$24,000 through September 2014, its estimated remaining useful life. The patent intangible assets relate to fees incurred for patents. We begin amortization of these patent costs when they are issued and any future annual amortization is expected to be minor.

Property and Equipment

Property and equipment are stated at cost. Company owned Cooled ThermoTherapy control units located at customer sites for evaluation and long-term use programs are transferred from inventory and classified as property and equipment that are valued at cost to manufacture and depreciated over a useful life of four years. Improvements that extend the useful lives of property and equipment are capitalized at cost and depreciated over their remaining useful lives. Repairs and maintenance are charged to expense as incurred. Depreciation is calculated using the straight-line method based upon estimated useful lives of three to seven years for machinery, equipment, furniture and vehicles. Leasehold improvements are amortized over the shorter of the useful life of the assets or term of the lease.

UROLOGIX, INC.
Notes to Financial Statements

Property and equipment, net consisted of the following (in thousands):

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Leasehold improvements, equipment, furniture and vehicles	\$ 281	\$ 154
Computer equipment	30	23
Control units	550	837
Total property and equipment, net	<u>\$ 861</u>	<u>\$ 1,014</u>

Other Assets

Other assets consist primarily of prepaid royalties resulting from patent licensing agreements. The agreements require us to pay a royalty on sales of Cooled ThermoTherapy products. Royalties are charged to cost of goods sold as sales are recognized.

Leases and Deferred Rent

We lease all of our office space. We evaluate and classify all of our leases as operating or capital leases for financial reporting purposes. As of June 30, 2011, all of our leases were accounted for as operating leases. For leases that contain rent escalations, we record the total rent payable during the lease term, as determined above, on a straight-line basis over the term of the lease and record the difference between the rents paid and the straight-line rent as a deferred rent. Any lease incentives we receive for items such as leasehold improvements, we record a deferred credit for the amount of the lease incentive and amortize it over the lease term, which may or may not equal the amortization period of the leasehold improvements.

Warranty Costs

Certain of our products are covered by warranties against defects in material and workmanship for periods of up to 24 months. We record a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of product failure rates, material usage and service delivery costs to sales, the historical length of time between the sale and resulting warranty claim and other factors.

Warranty provisions and claims for the years ended June 30, 2011, 2010 and 2009 were as follows (in thousands):

<u>Years Ended</u>	<u>Beginning Balance</u>	<u>Warranty Provisions</u>	<u>Warranty Claims</u>	<u>Ending Balance</u>
June 30, 2011	\$13	\$40	(\$43)	\$10
June 30, 2010	19	43	(49)	13
June 30, 2009	40	28	(49)	19

UROLOGIX, INC.
Notes to Financial Statements

Income Taxes

We utilize the asset and liability method of accounting for income taxes. We recognize deferred tax liabilities or assets for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities. We regularly assess the likelihood that our deferred tax assets will be recovered from future taxable income. We consider projected future taxable income and ongoing tax planning strategies in assessing the amount of the valuation allowance necessary to offset our deferred tax assets that will not be recoverable. We have recorded and continue to carry a full valuation allowance against our gross deferred tax assets that will not reverse against deferred tax liabilities within the scheduled reversal period. If we determine in the future that it is more likely than not that we will realize all or a portion of our deferred tax assets, we will adjust our valuation allowance in the period we make the determination. We expect to provide a full valuation allowance on our future tax benefits until we can sustain a level of profitability that demonstrates our ability to realize these assets. At June 30, 2011, we carried a valuation allowance of \$35.7 million against our net deferred tax assets.

Stock-Based Compensation

The Company uses the fair value recognition provisions of the revised authoritative guidance for equity-based compensation and applies the modified prospective method in determining stock compensation expense. Stock compensation expense is based on the fair value of the award at the date of grant and is recognized over the requisite service period which corresponds to the vesting period. Options and restricted stock awards typically vest 25 percent after the first year of service with the remaining vesting 1/36th each month thereafter. Generally, options granted to non-employee directors are immediately exercisable at the date of grant while restricted stock awards generally vest after one year. Options are priced based on the closing price of a share of our common stock at the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. To determine the inputs for the Black-Scholes option pricing model, we use historical data to estimate expected volatility and the period of time that option grants are expected to be outstanding. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. The range of these assumptions and the range of option pricing and number of options granted at the different grant dates will impact our calculation of the fair value of the awards and will therefore impact the amount of expense reflected in our statement of operations for any given period. Fair value for restricted stock is based on the market price on the day of grant. See Note 4 for additional discussion.

Net Loss Per Common Share

Basic loss per share was computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the periods presented. Diluted net loss per share was computed by dividing the net loss by the weighted average number of shares of common stock outstanding plus all potentially dilutive common shares that result from stock options. The number of shares used in earnings per share computations is as follows (in thousands):

	For the years ended June 30,		
	2011	2010	2009
Weighted average common shares outstanding - basic	14,556	14,508	14,469
Dilutive effect of stock options	-	-	-
Weighted average common shares outstanding - diluted	14,556	14,508	14,469

Effective July 1, 2009, the Company adopted guidance which requires all outstanding unvested share-based payment awards that contain non- forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be considered participating securities and to be included in the computation of basic and diluted earnings per share using the two-class method. The adoption of this statement resulted in the Company having to adjust prior weighted average shares outstanding to include outstanding unvested restricted stock that contains non-forfeitable rights to dividends of 60,000 shares for the fiscal year ended June 30, 2009. This change in weighted average shares outstanding resulted in no change to our earnings per share amounts for the fiscal year ended June 30, 2009.

UROLOGIX, INC.
Notes to Financial Statements

The dilutive effect of stock options in the above table excludes 1.9 million, 1.2 million, and 1.6 million of underlying options for which the exercise price was higher than the average market price for the years ended June 30, 2011, 2010 and 2009, respectively. In addition, dilutive potential common shares of 918 shares, 73,890 shares and 11,016 shares, where the exercise price was lower than the average market price, were excluded from diluted weighted average common shares outstanding for the year ended June 30, 2011, 2010 and 2009, respectively as they would be anti-dilutive due to our net loss for those years.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Financial Instruments

The carrying amounts of our accounts receivable and accounts payable approximate fair value due to their short-term nature.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. The Company adjusts such estimates and assumptions when facts and circumstances dictate. These include, among others, the continued difficult economic conditions, tight credit markets, Medicare reimbursement rate uncertainty, and a decline in consumer spending and confidence, all of which have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual amounts could differ significantly from those estimated at the time the financial statements are prepared. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued new revenue guidance that requires an entity to apply the relative selling price allocation method in order to estimate a selling price for all units of accounting, including delivered items when vendor-specific objective evidence or acceptable third-party evidence does not exist, as well as new guidance addressing the accounting for revenue transactions involving software. The new guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted this new guidance effective July 1, 2010 on a prospective basis. The adoption of this statement did not have any impact on our financial condition or results of operations.

3. Liquidity

The Company incurred net losses of \$3,733,000 in fiscal year 2011 and \$2,169,000 and \$4,419,000 in the fiscal years ended 2010 and 2009, respectively. In addition, the Company has accumulated aggregate net losses from the inception of business through June 30, 2011 of \$110,031,000. At June 30, 2011, the Company had cash and cash equivalents of \$3,061,000 and no debt.

UROLOGIX, INC.
Notes to Financial Statements

Subsequent to the end of our fiscal year, the Company entered into a license agreement with Medtronic and paid Medtronic \$500,000 of the \$1,000,000 initial license fee on September 6, 2011. Primarily due to this licensing payment, acquisition and integration related expenses, the net loss incurred in the current business and one-time annual operating expenses such as insurance premiums, as of September 16, 2011 the Company's cash and cash equivalents balance was approximately \$1.5 million. The significant decrease in our cash balance in the first quarter of fiscal year 2012 is not expected to continue throughout the remainder of the fiscal year as the cash outflows in the first quarter related to the annual payments and the licensing fee will not occur again in fiscal year 2012. In addition, as part of the licensing agreement, payments for Prostiva products and royalties are deferred into the next fiscal year while collections of Prostiva revenue commence immediately.

As a result of the Company's history of operating losses and negative cash flows from operations, the licensing fee and integration expenses related to the Prostiva product, and the uncertainty regarding the Company's ability to obtain additional capital, there is substantial doubt about our ability to continue as a going concern. The Company's cash and cash equivalents may not be sufficient to sustain day-to-day operations for the next 12 months and the Company's ability to continue as a going concern is dependent upon improving our liquidity. While our primary goal is to generate capital through cash flow from operations, the Company is also pursuing financing alternatives. The Company intends to seek additional financing by incurring indebtedness or from an offering of our equity securities or both.

There can be no assurance that the Company will be able to raise additional capital through a debt or equity financing. If the Company does obtain such financing, there can be no assurance that additional financing will be obtained in an amount that is sufficient, in a timely manner, or on terms and conditions acceptable to the Company or its shareholders. If the Company is unable to obtain additional capital in an amount sufficient to meet its needs and in a timely manner, the Company may be required to further reduce expenses and curtail capital expenditures, sell assets, or suspend or discontinue operations.

The fiscal year 2011 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

4. *Stock Options and Restricted Stock Awards*

The Company has an equity compensation plan, the 1991 Stock Option Plan (the "1991 Plan"), that provides for the granting of incentive stock options to employees and nonqualified stock options and restricted stock to employees, directors and consultants. As of June 30, 2011, we had reserved 4,450,910 shares of common stock under the 1991 Plan, and 538,378 shares were available for future grants. Options expire 10 years from the date of grant and typically vest 25 percent after the first year of service with the remaining vesting 1/36th each month thereafter. Under the current terms of the 1991 Plan, persons serving as non-employee directors at the date of the annual shareholder meeting receive an option grant to purchase 10,000 shares of common stock at a price equal to fair market value on the date of grant. Generally, such options are immediately exercisable on the date of grant, and expire 10 years from the date of grant, subject to earlier termination one year after the person ceases to be a director of the Company.

Options were granted to a non-employee consultant to purchase a total of 20,000 shares in both the first quarter of fiscal years 2011 and 2010. These options are non-qualified options which expire 10 years from the grant date and become fully vested over 24 months from the date of grant provided the consultant is still providing services to the Company. As these options were granted to a non-employee consultant, the final value of these options will be determined at their vesting dates, rather than the date of grant, using the Black-Scholes option pricing model and marked to market at each reporting date until they become fully vested. The Company uses the fair value recognition provisions of the revised authoritative guidance for equity-based compensation and applies the modified prospective method in determining stock option expense. Our results of operations reflect compensation expense for new stock options granted and vested under the 1991 Plan and the unvested portion of previous stock option grants and restricted stock which vest during the year.

UROLOGIX, INC.
Notes to Financial Statements

Amounts recognized in the financial statements related to stock-based compensation for the fiscal years ended June 30, 2011, 2010 and 2009 were as follows (in thousands):

	2011	2010	2009
Cost of goods sold	\$ 38	\$ 44	\$ 31
Selling, general and administrative	287	350	425
Research and development	44	46	33
Total cost of stock-based compensation	369	440	489
Tax benefit of options issued	-	-	-
Total stock-based compensation, net of tax	\$ 369	\$ 440	\$ 489

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. We use historical data to estimate expected volatility, the period of time that option grants are expected to be outstanding, as well as employee termination behavior. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. For restricted stock awards, the fair value is calculated as the market price on date of grant and we amortize the fair value on a straight-line basis over the requisite service period of the award. The following weighted-average assumptions were used to estimate the fair value of options granted during the fiscal years ended June 30, 2011, 2010 and 2009 using the Black-Scholes option-pricing model:

	2011	2010	2009
Volatility	80.0%	77.0%	59.1%
Risk-free interest rate	0.9%	1.7%	2.3%
Expected option life	3.6 years	3 years	3 years
Stock dividend yield	-	-	-

A summary of our options and option activity for the fiscal year ended June 30, 2011 is as follows:

Options Outstanding						Options Exercisable	
Range of Exercise Prices		Outstanding as of June 30, 2011	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Exercisable as of June 30, 2011	Weighted Avg. Exercise Price	
\$ -	\$ 2.43	1,557,000	7.86	\$ 1.38	817,635	\$ 1.50	
\$ 2.43	\$ 4.86	125,523	3.97	\$ 3.19	124,810	\$ 3.19	
\$ 4.86	\$ 7.29	29,600	1.50	\$ 6.31	29,600	\$ 6.31	
\$ 7.29	\$ 12.15	-	-	\$ -	-	\$ -	
\$ 12.15	\$ 14.58	15,250	1.58	\$ 13.02	15,250	\$ 13.02	
\$ 14.58	\$ 17.01	10,000	0.36	\$ 15.82	10,000	\$ 15.82	
		1,737,373	7.37	\$ 1.78	997,295	\$ 2.18	

	Number of Options	Weighted-avg. Exercise Price Per Option	Weighted-avg. Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at July 1, 2010	1,625,942	\$ 2.15		\$ 47,820
Options granted	389,500	0.93		
Options forfeited	(90,922)	1.16		
Options expired	(181,147)	3.62		
Options exercised	(6,000)	0.54		
Outstanding at June 30, 2011	1,737,373	\$ 1.78	7.4	\$ 28,237
Exercisable at June 30, 2011	997,295	\$ 2.18	6.5	\$ 17,913

UROLOGIX, INC.
Notes to Financial Statements

The aggregate intrinsic value in the table above is based on our closing stock price of \$0.95 on June 30, 2011, which would have been received by the optionees had all options been exercised on that date. The aggregate intrinsic value for options exercisable at June 30, 2010 and 2009 was \$34,000 and \$47,000, respectively, when the closing price of our stock on June 30, 2010 and 2009 was \$1.07 and \$1.24, respectively.

The weighted average fair value of our options at their grant date was approximately \$0.51, \$0.69 and \$0.57 for options granted during the fiscal years ended June 30, 2011, 2010 and 2009, respectively. The total intrinsic value of options exercised during the fiscal years ended June 30, 2011 and 2010 was \$360 and \$7,000, respectively. There was no intrinsic value of the options exercised during fiscal year 2009 as the grant price of the options was greater than the stock price on the date of exercise.

A summary of the status of our non-vested options as of June 30, 2011 is as follows:

	<u>Number of Options</u>	<u>Weighted-avg. Grant- Date Fair Value</u>
Non-vested at June 30, 2010	854,932	\$0.69
Options granted	389,500	0.51
Options forfeited	(90,923)	0.58
Options vested	<u>(413,431)</u>	0.68
Non-vested at June 30, 2011	<u><u>740,078</u></u>	\$0.62

A summary of restricted stock award activity is as follows:

	<u>Number of Restricted Stock Awards</u>	<u>Weighted-avg. Grant- Date Fair Value</u>
Non-vested at June 30, 2010	66,322	\$1.50
Options granted	106,608	0.91
Options forfeited	-	-
Options vested	<u>(46,322)</u>	1.38
Non-vested at June 30, 2011	<u><u>126,608</u></u>	\$0.95

As of June 30, 2011, total unrecognized compensation cost related to non-vested stock options and restricted stock awards granted under our plan was \$365,000 and \$89,000 respectively. That cost is expected to be recognized over a weighted-average period of 1.9 years for non-vested stock options and 0.5 years for restricted stock awards. The total fair value of options vested during the fiscal years ended June 30, 2011, 2010 and 2009 was \$281,000, \$208,000 and \$211,000, respectively.

5. Other Accrued Expenses

Other accrued expenses is comprised of the following as of June 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Sales tax accrual	\$ 188	\$ 191
Other	353	328
Total other accrued expenses	<u><u>\$ 541</u></u>	<u><u>\$ 519</u></u>

UROLOGIX, INC.
Notes to Financial Statements

6. Income Taxes

The components of income tax expense (benefit) for each of the years in the three-year period ended June 30, 2011 consist of the following (in thousands):

	For the fiscal year ended June 30,								
	2011			2010			2009		
	Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total
Federal	\$ (3)	\$ -	\$ (3)	\$ (109)	\$ -	\$ (109)	\$ (48)	\$ -	\$ (48)
State	11	-	11	21	-	21	55	-	55
Total	\$ 8	\$ -	\$ 8	\$ (88)	\$ -	\$ (88)	\$ 7	\$ -	\$ 7

A reconciliation of our statutory tax expense (benefit) to our actual tax expense (benefit) is as follows:

	For the years ended June 30,		
	2011	2010	2009
Federal statutory rate at 34 percent	\$ (1,267)	\$ (767)	\$ (1,500)
State taxes, net of federal tax expense (benefit) and state valuation allowance	(125)	(36)	(83)
Nondeductible expenses	47	52	50
Stock –based compensation	52	77	108
General business credits	(20)	(77)	(220)
Net operating loss carryback claim	-	(84)	-
Adjustments to Net operating loss' and credits	4,236	2,061	937
Other	(9)	(11)	(8)
Change in valuation allowance	(2,906)	(1,303)	723
	\$ 8	\$ (88)	\$ 7

The components of our net deferred tax assets and liabilities are as follows (in thousands):

	June 30,	
	2011	2010
Deferred Tax Assets:		
Non-Current:		
Net operating loss carry forward	\$ 31,473	\$ 33,826
Definite-lived intangibles	2,482	2,935
Alternative minimum tax credit	3	9
Federal and state general business credits	865	975
Non-qualified stock-based compensation	535	461
Property, plant and equipment	53	-
Current:		
Accrued expenses	330	438
Gross deferred tax assets	35,741	38,644
Deferred Tax Liabilities:		
Non-Current:		
Property, plant and equipment	-	(15)
Gross deferred tax liabilities	-	(15)
Net deferred tax assets before valuation allowance	35,741	38,629
Less: valuation allowance	(35,741)	(38,629)
Total net deferred tax asset	\$ -	\$ -

UROLOGIX, INC.
Notes to Financial Statements

Included in the valuation allowance amounts above is \$538,000 as of June 30, 2011 and 2010, which is attributable to increases in the net operating loss carry forwards resulting from the exercise of stock options. These amounts will be recorded as an increase to additional paid-in-capital if it is determined in the future that this portion of the valuation allowance is no longer required, and the net operating loss generated by these deductions is utilized on the tax return.

At June 30, 2011, the expiration dates and amounts of our net operating loss carryforwards and credits for federal income tax purposes are as follows (in thousands):

Years expiring (in thousands)	Net Operating	
	Loss	Credits
June 30, 2012	\$ 8,114	\$ -
June 30, 2013 – June 30, 2017	15,907	-
June 30, 2018 – June 30, 2022	29,277	-
June 30, 2023 – June 30, 2031	32,210	660
	<u>\$ 85,508</u>	<u>\$ 660</u>

The Company completed a Section 382 analysis of the net operating loss carryforwards through February 1, 2006. Through that analysis it was determined that none of the remaining pre-February 1, 2006 net operating loss carryforwards are subject to a Section 382 limitation. Net operating losses generated since February 1, 2006 have not been analyzed for any Section 382 limitations and therefore may or may not be fully realizable in the future.

As of June 30, 2011, we had approximately \$15,000 of unrecognized tax benefits related to state tax liabilities which would favorably impact the effective income tax rate in any future period, if recognized. During the year ended June 30, 2011, there were no significant changes to the total gross unrecognized tax benefits. It is expected that the amount of unrecognized tax benefits for positions which we have identified will not change significantly in the next twelve months.

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. We file income tax returns in the United States (U.S.) federal jurisdiction as well as various state jurisdictions. We are subject to U.S. federal income tax examinations by tax authorities for fiscal years after 1996 due to unexpired net operating loss carryforwards originating in and subsequent to that fiscal year. Income tax examinations we may be subject to for the various state taxing authorities vary by jurisdiction.

7. Deferred Income

Deferred income as of June 30 consisted of the following (in thousands):

	2011	2010
Deferred royalty income	\$ -	\$ 155
Deferred warranty service income	30	14
Total deferred income	<u>\$ 30</u>	<u>\$ 169</u>

Deferred royalty income consisted of a prepaid non-exclusive license previously granted to a third party for the use of certain of our technologies. Deferred royalty income is recognized as the greater of amounts due based on actual sales or amortization of the license fee over the remaining license period, which ended in April of 2011.

Deferred warranty service income is for prepayments made to us for warranty service contracts and is recognized over the contract period ranging from 12 to 24 months.

UROLOGIX, INC.
Notes to Financial Statements

8. Commitments and Contingencies

Leases

The Company leases its facility and certain equipment under non-cancelable operating leases that expire at various dates through fiscal year 2016. Rent expense related to operating leases was approximately \$197,000, \$215,000, and \$216,000 for the years ended June 30, 2011, 2010 and 2009, respectively. On September 9, 2010, the Company entered into a new lease agreement with our current landlord, covering the same square footage, for a period of seventy-two months, effective August 1, 2010. Future minimum annual lease commitments under non-cancelable operating leases with initial terms of one year or more are as follows:

	Fiscal Years				
	2012	2013	2014	2015	2016
Building and equipment leases	\$ 214	\$ 216	\$ 211	\$ 212	\$ 215

Contingencies

We have been and are involved in various legal proceedings and other matters that arise in the normal course of our business, including product liability claims that are inherent in the testing, production, marketing and sale of medical devices. The ultimate liabilities, if any, cannot be determined at this time. However, based upon currently available information, we believe that the ultimate resolution of these matters will not have a material effect on the financial position, liquidity or results of operations of the Company.

9. Benefit Plan

The Company provides a 401(k) savings plan to which eligible employees may make pretax payroll contributions up to the allowed limit of the Internal Revenue Service. Company matching contributions are discretionary, and none have been made to date.

10. Subsequent Event

On September 6, 2011, we entered into agreements with Medtronic, Inc. (“Medtronic”) and its subsidiary, VidaMed relating to the Prostiva RF Therapy. These agreements are summarized as follows:

License Agreement: Under the License Agreement, Medtronic and VidaMed granted us an exclusive, worldwide license to the Prostiva® RF Therapy System in the field of the radio frequency treatment of the prostate, including the treatment of benign prostatic hyperplasia (BPH). In exchange for the license, we will pay Medtronic a license fee of \$1.0 million, of which \$500,000 was paid upon the execution of the License Agreement. The remaining \$500,000, less the \$147,000 purchase price paid under the Asset Purchase Agreement and certain credits under the Transition Agreement, must be paid by the Company on September 6, 2012. The Asset Purchase Agreement and the Transition Agreement are described below. We will also pay Medtronic royalties on net sales of product, subject to minimum and maximum royalty amounts. Earned royalties are payable thirty days following the end of each contract year; minimum royalty amounts are payable ninety days following the end of each contract year. The Company is also obligated to pay a license maintenance fee of \$65,000 on September 6, 2012 and annually thereafter. In addition, if total payments by us to Medtronic under the License Agreement (other than the license maintenance fee) and under the Asset Purchase Agreement (described below) reach an aggregate of \$10 million, we will have no further payment obligations to Medtronic and will thereafter have a fully paid up, royalty-free and perpetual license for the term of the License Agreement. The term of the License Agreement is ten years or the earlier closing date of a purchase under the Acquisition Option Agreement described below. In addition, either party may terminate the License Agreement by written notice for breach after an opportunity to cure and the license will automatically terminate concurrently with certain terminations of the Transition Agreement (described below). Upon termination of the License Agreement, all rights to the Prostiva intellectual property will revert back to Medtronic and the Transition Agreement and Acquisition Option Agreement will terminate. Further, upon termination of the License Agreement by Medtronic as a result of the Company’s breach or bankruptcy, Medtronic will have the right to repurchase the assets from the Company that the Company previously purchased under the Asset Purchase Agreement for the same purchase price previously paid by the Company. Medtronic and VidaMed also entered into sublicenses to grant the Company rights to certain intellectual property relating to the Prostiva treatment.

UROLOGIX, INC.
Notes to Financial Statements

Transition Agreement: We entered into a Transition Services and Supply Agreement with Medtronic under which Medtronic will provide us with transition services relating to manufacturing, sourcing, operations, compliance, quality, regulatory and other matters for an initial term ending one month after Medtronic completes certain regulatory work. We will pay Medtronic a fee of \$30,000 per month beginning in November 2011 for these transition services and will continue paying this monthly fee until the earlier of the initial term of the Transition Agreement or the last of certain United States or European Union regulatory transfers. The parties also allocated responsibility for various other costs associated with the transition services.

Through the Transition Agreement, Medtronic appointed Urologix as its exclusive U.S. distributor of the Prostiva treatment until such time as we have received the regulatory approvals necessary to allow us to sell the product in the U.S. Medtronic also agreed to continue to sell products through certain channels outside of the U.S. during a transition period. Following the transition period, we will be entitled to distribute products outside of the U.S. pursuant to the terms of a distribution agreement until we have received the necessary regulatory approvals, at which time we will be able to sell the products in those territories consistent with the regulatory approvals of those territories. Medtronic also consigned certain inventory to us and we are obligated to accept additional consignment inventory upon the expiration of transition periods.

Under the provisions of the Transition Agreement, the parties also agreed upon the handling of product warranty claims, agreed upon a transition plan for regulatory matters, and entered into a quality agreement. In addition, Medtronic assigned a supply agreement to us, will place orders with certain suppliers and sell those components to us at its cost, and will transfer certain other components to us.

The Transition Agreement will terminate on September 6, 2012, but if certain U.S. regulatory approvals have not been received during the twelve month period, the Transition Agreement will be extended for three months. Medtronic may terminate the Transition Agreement prior to the expiration of its term for an uncured breach by us. We may terminate the Transition Agreement prior to the expiration of its term in connection with excessive third party regulatory costs. In addition, if neither party elects to address certain regulatory challenges, either party may terminate the Transition Agreement and Medtronic must pay us \$250,000. Upon termination by Medtronic for a regulatory challenge or by us, we will not have any further payment obligation for any minimum royalty, any license fee not then due and payable, or any obligation to purchase any assets under the Acquisition Option Agreement or the Asset Purchase Agreement, described below.

Acquisition Option Agreement: Under the Acquisition Option Agreement with Medtronic, we have the right to purchase and Medtronic has the right to require us to purchase the assets associated with the Prostiva treatment and the licenses and sublicenses granted by Medtronic and VidaMed. In the case of our exercise of our option to purchase, the purchase price will be \$10 million less license fees and royalty amounts previously paid under the License Agreement and the purchase price paid under the Asset Purchase Agreement. In the case of Medtronic's exercise of its option to require us to purchase, the purchase price will be the price stated by Medtronic in its exercise notice, provided that price is accepted by us in our sole discretion. Our rights and Medtronic's rights under the Acquisition Option Agreement may be exercised until the License Agreement expires or terminates or, if earlier, the date the other party's notice of exercise is received in accordance with the Acquisition Option Agreement.

Asset Purchase Agreement: We entered into an Asset Purchase Agreement through which Medtronic will sell to us certain tangible assets used in the Prostiva business for a purchase price of \$147,000. The purchase price is payable the later of September 6, 2012 or at the closing of the Asset Purchase Agreement transactions, which will take place as soon as practicable after the date of certain U.S. regulatory approvals.

The above transaction will be accounted for by the Company as a business combination in accordance with ASC Topic 805 as the Company has obtained control of the Prostiva business. Under the terms of the agreements, after the completion of the Transition Period, the Company will be responsible for the manufacturing, sourcing, operations, compliance, quality, regulatory and other matters of the Prostiva RF Therapy System.

UROLOGIX, INC.
Notes to Financial Statements

We have not included all of the required disclosures related to the acquisition of the assets of the Prostiva business as it was not practical to do so given the timing of the transaction and filing date of this Annual Report on Form 10-K. As a result, all required disclosures will be included in the acquisition footnote filed with our Form 10-Q for the period ended September 30, 2011.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Stryker Warren, Jr., and Chief Financial Officer, Brian J. Smrdel, have evaluated the Company's disclosure controls and procedures as of June 30, 2011. Based upon their review, they have concluded that these controls and procedures are effective.

The Company's Chief Executive Officer and Chief Financial Officer used the definition of "disclosure controls and procedures" as set forth in Rule 13a-15(e) under the Exchange Act in making their conclusion as to the effectiveness of such controls and procedures.

(b) Changes in Internal Controls over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during the fourth quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's internal control report is included in this report under Item 8, under the caption "Management's Report on Internal Control over Financial Reporting."

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item is contained in the following sections of the Company's Proxy Statement for the 2011 Annual Meeting of Shareholders (the "2011 Proxy Statement"), a definitive copy of which will be filed with the Commission within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K and is incorporated herein by reference: Election of Directors, Information Regarding Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance, and Code of Ethics.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this item is contained in the following sections of the Company's 2011 Proxy Statement and is incorporated herein by reference: Executive Compensation, Compensation of Directors, and Employment and Change in Control Arrangements.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this item with respect to Item 403 of Regulation S-K is contained in the following sections of the Company's 2011 Proxy Statement and is incorporated herein by reference: Security Ownership of Principal Shareholders and Management. The information required under this item with respect to Item 201(d) of Regulation S-K is contained in Item 5 of this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required under this item is contained in the following sections of the Company's 2011 Proxy Statement and is incorporated herein by reference: Certain Relationships and Related Persons Transactions, Policy Regarding Transactions with Related Persons, and Corporate Governance.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required under this item is contained in the following sections of the Company's 2011 Proxy Statement and is incorporated herein by reference: Independent Registered Public Accountants.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

(a) Documents filed as part of this report.

(1) Financial Statements.

The financial statements of the Company are set forth at Item 8. “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

(2) Financial Statement Schedules for fiscal years ended June 30, 2011, 2010 and 2009.

None.

(b) Exhibits.

Exhibit Number	Document	Incorporated by Reference To:
3.1	Amended and Restated Articles of Incorporation.	Exhibit 3.1 of the Company’s Registration Statement on Form S-1 (File No. 333-03304) filed on May 28, 1996 (the “1996 Registration Statement”).
3.2	Amended and Restated Bylaws of Urologix, Inc., as amended on December 5, 2006.	Exhibit 3.2 of the Company’s Form 8-K dated December 5, 2006.
4.1	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock.	Exhibit 1 of the Company’s Registration Statement on Form 8-A (File No. 000-28414) filed January 16, 1997.
10.1	Amended and Restated Urologix, Inc. 1991 Stock Option Plan, as amended through June 21, 2008. *	Exhibit 10.1 of the Company’s Form 10-K for the year ended June 30, 2009.
10.2	Letter Agreement Regarding Offer of Employment between Urologix, Inc. and Stryker Warren Jr. dated June 24, 2008. *	Exhibit 10.1 to Current Report on Form 8-K dated June 24, 2008.
10.3	Letter Agreement Regarding Offer of Employment between Urologix, Inc. and Gregory Fluet dated July 14, 2008. *	Exhibit 10.1 to Current Report on Form 8-K dated July 14, 2008.
10.4	Amended and Restated Letter Agreement Regarding Change In Control Benefits between Urologix, Inc. and Certain Executive Officers dated December 29, 2008. *	Exhibit 10.2 to Current Report on Form 8-K dated December 30, 2008.
10.5	Letter Agreement dated April 27, 2010 regarding Offer of Employment entered into effective April 29, 2010 between Urologix, Inc. and Brian J. Smrdel. *	Exhibit 10.1 to Current Report on Form 8-K dated April 29, 2010.
10.6	First Amended and Restated Lease by and between Parkers Lake I Realty LLC and Urologix, Inc. dated as of August 1, 2010.	Exhibit 10.1 to Current Report on Form 8-K dated September 9, 2010.
10.7	Letter Agreement regarding Offer of Employment entered into effective June 1, 2010 between Urologix, Inc. and Ralph Cardinal. *	Attached hereto.
10.8	Letter Agreement regarding Offer of Employment entered into effective June 3, 2011 between Urologix, Inc. and Lisa Ackermann. *	Exhibit 10.1 to Current Report on Form 8-K dated June 3, 2011
10.9	License Agreement dated as of September 6, 2011 by and among Medtronic, Inc., Medtronic VidaMed, Inc., and Urologix, Inc. **	Exhibit 10.1 to Current Report on Form 8-K dated September 6, 2011

Exhibit Number	Document	Incorporated by Reference To:
10.10	Transition Services and Supply Agreement dated as of September 6, 2011 by and among Medtronic, Inc. and Urologix, Inc. **	Exhibit 10.2 to Current Report on Form 8-K dated September 6, 2011
10.11	Acquisition Option Agreement dated as of September 6, 2011 by and among Medtronic VidaMed, Inc., Medtronic, Inc., and Urologix, Inc.	Exhibit 10.3 to Current Report on Form 8-K dated September 6, 2011
10.12	Asset Purchase Agreement dated as of September 6, 2011 by and among Medtronic VidaMed, Inc., Medtronic, Inc., and Urologix, Inc.	Exhibit 10.4 to Current Report on Form 8-K dated September 6, 2011
23.1	Consent of independent registered public accounting firm.	Attached hereto.
31.1	Certification of Chief Executive Officer (principal executive officer) pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.	Attached hereto.
31.2	Certification of Chief Financial Officer (principal financial officer and principal accounting officer) pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act.	Attached hereto.
32	Certification pursuant to 18 U.S.C. §1350.	Attached hereto.

* Indicates a management contract or compensatory plan or arrangement.

** Certain portions of this exhibit have been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2. Spaces corresponding to the deleted portions are represented by brackets with asterisks.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 21, 2011

UROLOGIX, INC.

By: /s/ Stryker Warren, Jr.
Stryker Warren, Jr., Chief Executive Officer
(principal executive officer)

Each person whose signature appears below hereby constitutes and appoints Stryker Warren, Jr. and Brian J. Smrdel, and each of them, as his true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his behalf, individually and in each capacity stated below, all amendments and post-effective amendments to this Form 10-K and to file the same, with all exhibits thereto and any other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as each might or could do in person, hereby ratifying and confirming each act that said attorneys-in-fact and agents may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on behalf of the registrant by the following persons in the capacities indicated on September 21, 2011.

<u>Signature</u>	<u>Title</u>
<u>/s/ Stryker Warren, Jr.</u> Stryker Warren, Jr.	Chief Executive Officer and Director (principal executive officer)
<u>/s/ Brian J. Smrdel</u> Brian J. Smrdel	Chief Financial Officer (principal financial officer and principal accounting officer)
<u>/s/ Mitchell Dann</u> Mitchell Dann	Director
<u>/s/ Sidney W. Emery, Jr.</u> Sidney W. Emery, Jr.	Director
<u>/s/ Christopher R. Barys</u> Christopher R. Barys	Director
<u>/s/ Patrick D. Spangler</u> Patrick Spangler	Director

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Urologix, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 333-11981, 333-41385, 333-84869, 333-53634, 333-82854 and 333-124939) of Urologix, Inc. of our report dated September 21, 2011 with respect to the balance sheets of Urologix, Inc. as of June 30, 2011 and 2010, and the related statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2011, which report appears in the June 30, 2011 annual report on Form 10-K of Urologix, Inc.

Our report dated September 21, 2011 contains an explanatory paragraph that states that the Company has suffered recurring losses from operations and negative operating cash flows and has entered into a new licensing agreement that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of that uncertainty.

/s/ KPMG LLP

Minneapolis, Minnesota
September 21, 2011

CERTIFICATIONS

I, Stryker Warren, Jr., certify that:

1. I have reviewed this Form 10-K of Urologix, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 21, 2011

/s/ Stryker Warren, Jr.

Stryker Warren, Jr.
Chief Executive Officer
(principal executive officer)

CERTIFICATIONS

I, Brian J. Smrdel, certify that:

1. I have reviewed this Form 10-K of Urologix, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 21, 2011

/s/ Brian J. Smrdel

Brian J. Smrdel
Chief Financial Officer
(principal financial officer and principal accounting officer)

CERTIFICATION

The undersigned certifies pursuant to 18 U.S.C. §1350, that:

- (1) The accompanying Annual Report on Form 10-K for the period ended June 30, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the accompanying Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 21, 2011

/s/ Stryker Warren, Jr.

Stryker Warren, Jr.
Chief Executive Officer
(Principal executive officer)

/s/ Brian J. Smrdel

Brian J. Smrdel
Chief Financial Officer
(Principal financial officer and principal accounting officer)

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Corporate Information

Directors

Mitchell Dann

*Chairman of the Board;
Principal, Sapient Capital Management, LLC*

Christopher R. Barys

General Manager; I-Flow

Sidney W. Emery, Jr.

Chief Executive Officer; Supply Chain Services, Inc.

Patrick D. Spangler

Chief Financial Officer; Epocrates

Stryker Warren, Jr.

Chief Executive Officer; Urologix, Inc.

Senior Management

Stryker Warren, Jr.

Chief Executive Officer

Gregory J. Fluet

*Executive Vice President &
Chief Operating Officer*

Brian J. Smrdel

Chief Financial Officer

Lisa Ackermann

*Vice President of
Sales and Marketing*

Ralph P. Cardinal

*Vice President of
Research and Development*

Corporate Headquarters

14405 Twenty-First Avenue North
Minneapolis, Minnesota 55447-8796
(763) 475-1400
www.urologix.com

Stock Transfer Agent and Register

Wells Fargo Shareholder Services
P.O. Box 65854
Saint Paul, Minnesota 55164-0854
(800) 468-9716

Securities Information

The Company's shares are publically traded on the Nasdaq stock market under the symbol ULGX.

Independent Public

Accountants

KPMG LLP
4200 Wells Fargo Center
90 South 7th Street
Minneapolis, Minnesota 55402-1611

Form 10-K Availability

Copies of the company's Form 10-K for the 2011 fiscal year, filed with the Securities and Exchange Commission, are available to any shareholder at no charge upon written request from:

Dividends

To date, we have not paid or declared dividends on our common stock, and we do not intent to do so in the foreseeable future.

Legal Counsel

Lindquist & Vennum, PLLP
4200 IDS Center
Minneapolis, Minnesota 55402-2223

Secretary

Urologix, Inc.
14405 Twenty-First Avenue North
Minneapolis, Minnesota 55447-8796

